国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)

2020
ANNUAL REPORT

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji
Ms. LEUNG Suet Lun

AUDIT COMMITTEE

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

REMUNERATION AND EVALUATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGIC COMMITTEE

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

REGISTERED OFFICE

Room 1601, Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

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STOCK CODE

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

Stock code: 00570

AUDITORS

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

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

WEBSITE

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

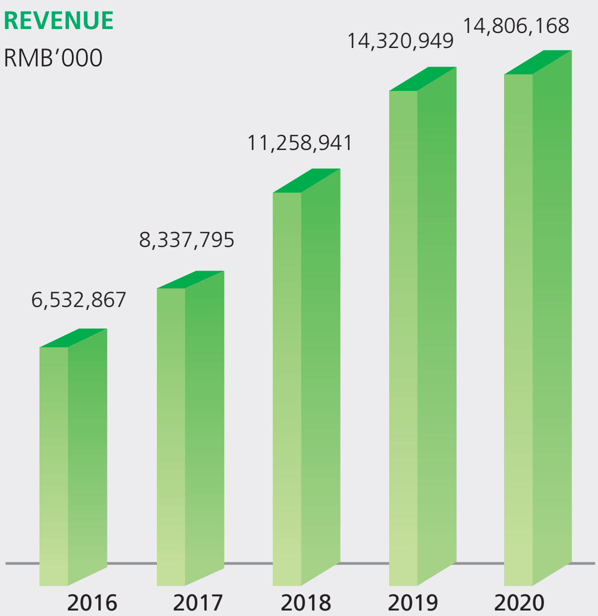
Five Year Financial Summary

(Expressed in RMB)

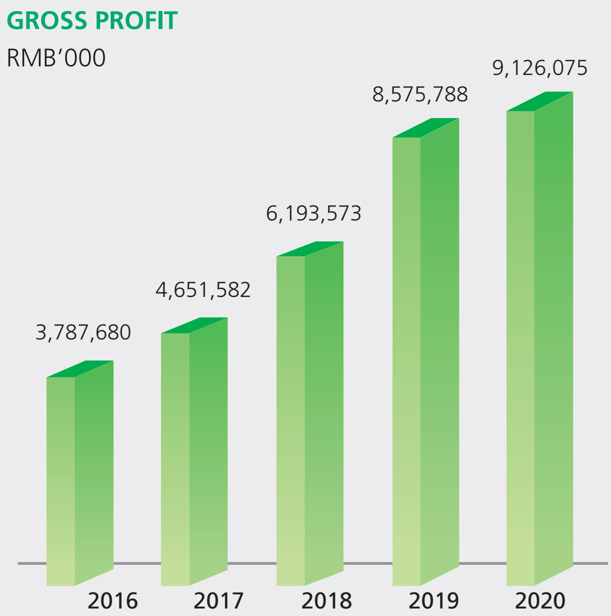
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**	2016-2020 Compound Annual Growth Rate
Results						
Revenue	6,532,867	8,337,795	11,258,941	14,320,949	**14,806,168**	22.70%
Gross profit	3,787,680	4,651,582	6,193,573	8,575,788	**9,126,075**	24.59%
Profit from operations	1,376,783	1,786,453	2,156,025	2,460,716	**2,490,631**	15.97%
Profit before taxation	1,303,804	1,567,237	1,856,697	2,154,618	**2,230,091**	14.36%
Profit attributable to the shareholders of the Company	966,927	1,170,434	1,439,018	1,588,114	**1,663,255**	14.52%
Profitability						
Gross profit margin	57.98%	55.79%	55.01%	59.88%	**61.64%**	
Operating profit margin	21.07%	21.43%	19.15%	17.18%	**16.82%**	
Net profit margin	16.63%	15.73%	13.92%	12.38%	**12.57%**	
Earnings per share						
Basic & Diluted	21.73 cents	26.41 cents	29.84 cents	31.54 cents	**33.03 cents**	11.04%
Financial position						
Total assets	21,036,784	24,885,307	30,287,390	32,473,725	**33,088,383**	
Total equity attributable to equity shareholders of the Company	11,588,327	12,436,778	15,551,433	16,623,415	**18,064,086**	
Total liabilities	8,280,922	11,070,050	12,776,819	13,423,000	**12,191,962**	
Bank balances and cash	2,373,356	4,787,781	6,349,714	5,613,633	**3,440,240**	
Debt asset ratio	39.36%	44.48%	42.19%	41.33%	**36.85%**	

Five Year Financial Summary

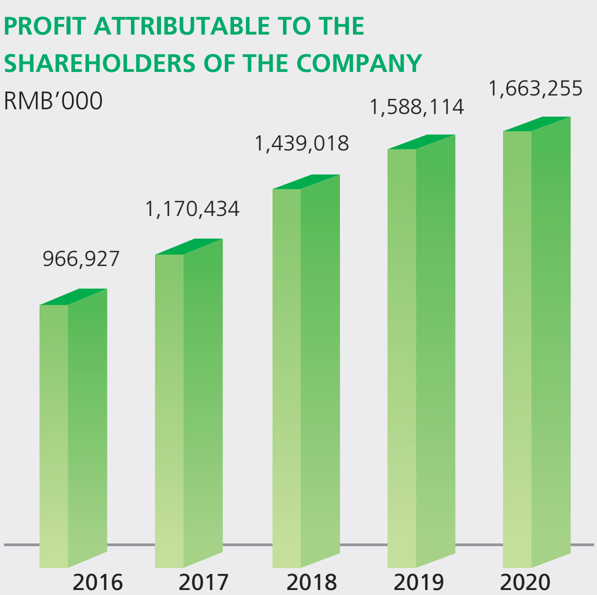
(Expressed in RMB)



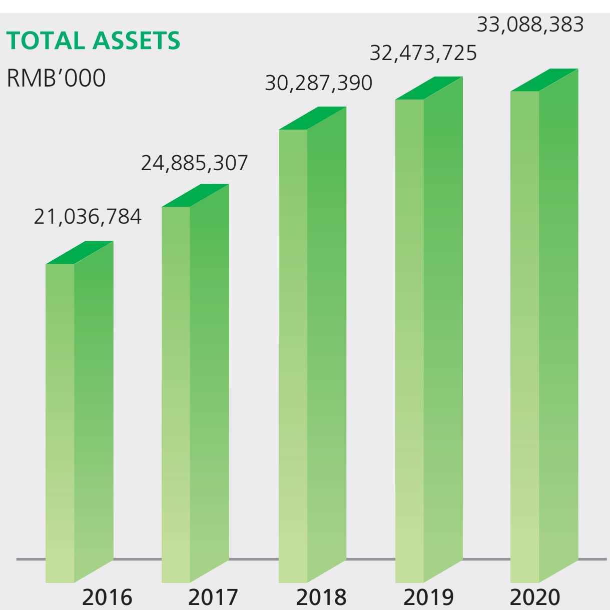
Annual Growth of 2019-2020 **3.39%**



Annual Growth of 2019-2020 **6.42%**



Annual Growth of 2019-2020 **4.73%**



Annual Growth of 2019-2020 **1.89%**

CHAIRMAN’S STATEMENT

Dear shareholders,

In 2020, the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic (the "pandemic") was both unprecedented and far-reaching, affecting all walks of life around the world. As of today, its effects are bringing strong element of uncertainty to predictions about the economy and society. The pandemic has aligned the whole healthcare industry with a mission of emergency support, and has revealed new development opportunities. Looking ahead, it is certain that the digital economy, intelligent manufacturing and healthcare industries will be among the industries forming new growth points and poles.

The year 2020 was also notable in the development of traditional Chinese medicine ("TCM") in China. This year, China has taken a solid step forward in the inheritance, innovation and development of TCM, and the wisdom and strength of TCM has contributed to the pandemic prevention and control, building of a healthy China and economic and social development, and has been highly recognized by the whole country and the world at large. The pandemic inspired the TCM industry to explore new development idea and promote a high-end, centralized and intelligent upgrading, and provide new driving force and support for economic development.

We believe, it is precisely because of the Group's strength in product variety, upstream resources, midstream production capacity, downstream channels and other aspects of its industry chain that the Group has a competitive advantage. It has been rewarded in collaborative developments, its success in resisting external impacts, and in winning industry-leading development opportunities.

BUSINESS PERFORMANCE

The Group's industry chain of TCM healthcare showed great resilience to the challenges of 2020, and contributed to China's "double victory" of pandemic prevention and control and high-quality development. For the year ended 31 December 2020, the Group's revenue was RMB14.806 billion, an increase of 3.4% compared with that of 2019, and the profit attributable to owners increased by 4.7% to RMB1.663 billion, with both figures representing record highs and the increase in profit attributable to owners exceeds the increase in revenue.

STRATEGIC PROGRESS

In 2020, the Group achieved the strategic goals set five years ago under the 13th Five-Year Plan, despite the challenges of the pandemic. Pursuant to its industrial development rule, the Group has further implemented the overall strategy of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry". It has formed an ecosystem with TCM manufacturing as the core, and medicinal herbs resources and value-added healthcare service sectors booming.

In terms of marketing, the Group acquired rich industry experience and a good market reputation, first-mover advantage in many channels and room to expand. The Group has fruitful achievements in the field of TCM scientific research. In addition to taking the lead in establishing quality standards for concentrated TCM granules, the Group has made every effort to bring progress to the transformation of major scientific and technological achievements, participates in the formulation of national standards for the processing of TCM decoction pieces, and accelerate R&D of homologous healthcare products, enjoying the driving force to promote the inheritance, innovation and development of the TCM industry. We also fulfill the main responsibility and related obligations of the whole life cycle of TCM products, and has consolidated the core for the high-quality development of the TCM industry with modern production systems and strict quality control. To improve its corporate governance, the Group has refined its enterprise management and continuously optimizes its internal control operation mechanism according to changes of risk status and the control environment. The overall planning function of the headquarter is emphasized in the top management, and the Group has been acting to strengthen unified management and control, optimized its organizational structure, improved the business collaboration process, and built an efficient and collaborative development landscape. The Group also grants management power with scope of responsibilities to subsidiaries so that they may take the initiative to develop, specialize and operate their main businesses independently, forming a strong joint force within the Group and maximizing its overall value.

At the beginning of 2021, the Announcement on Ending the Pilot Scheme of Concentrated TCM Granules (the "Announcement"), which has made a splash in the market, was officially issued. Looking back, according to the requirements of the Announcement, with the support of the pilot policy in the past 20 years, the Group has become a demonstration leader from a "pioneering and pilot" company, and takes a lead in innovation from the exploration of innovation. Looking forward, the end of the pilot work will have a profound influence on the development of the Group and the whole industry. Leveraging on the forward-looking business layout in recent years, the Group has formed a system integrated with modern industry production scale and national supply chain, enabling it to respond adroitly to policy changes.

CORPORATE RESPONSIBILITY

As the core platform of the modern TCM industry under China National Pharmaceutical Group Corporation ("CNPGC"), the Group consistently fulfills its responsibility and mission as a central stated-owned enterprise to respond to the public need for sustainable high-quality TCM. The pandemic deepened the Group's understanding of the true meaning of "caring for life and attending to health". During the pandemic, the Group takes full advantage of its national network within the TCM healthcare industry chain to ensure the drug supply, restore the economy, and contribute to the fight against the pandemic, and therefore, has been widely recognized.

Thanks to the high attention paid by the central government to the inheritance, innovation and development of the TCM industry, and the prosperous development of the society and the economy, the Group shares the same fate with the development of the TCM industry and even the society and the economy. We are committed to becoming a responsible TCM industry leader, emphasising contribution made by Chinese TCM to the society, and regards it as the key part of the Group's business, strategy and future development. Details will be set out in our Environmental, Social and Governance Report ("ESG") 2020.

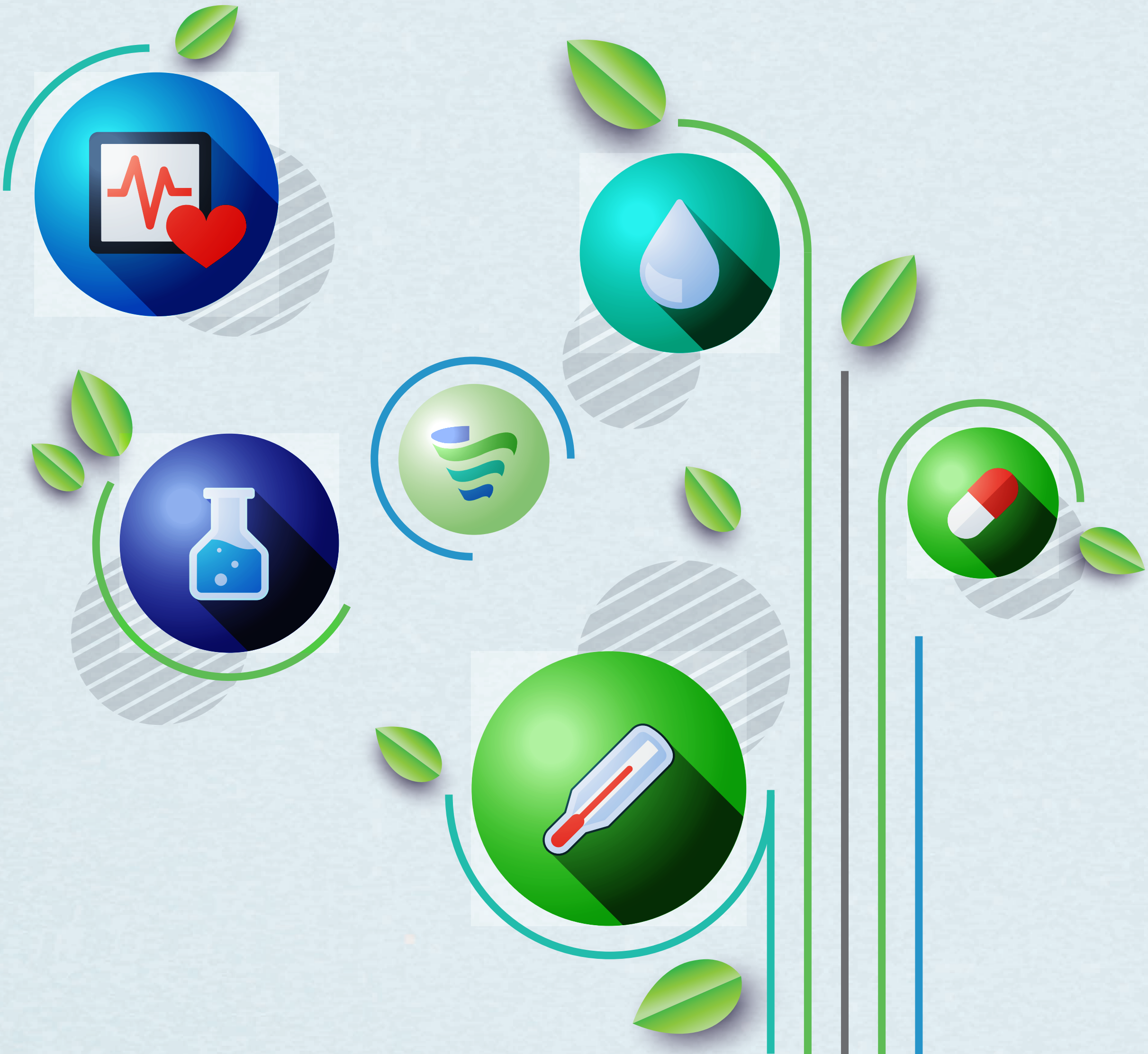
PROSPECTS

The year 2021 will be devoted to the initiation of projects under the 14th Five-Year Plan, the normalization of pandemic prevention and control, and implementation of new policies for concentrated TCM granules. A new competitive order in the TCM industry is taking shape quickly, with high-quality development being comprehensively implemented. The Group will therefore not only respond to sudden external changes in the short term, and maintain normal operations, so as to mitigate the business impact of the pandemic, but also optimize business planning and operational deployment according to medium- to long-term strategic objectives and development opportunities. By doing so, the Group will seek high-quality business development from a broader scope and an extended industry life cycle.

Looking forward, we hope that the Group will not only maintain its leadership in the concentrated TCM granules sector during the next five years, but also maintain the main line of inheriting of the essence and innovating while keeping the origin, follow the development rule of TCM, keep pace with changes in policy and market demand, and uphold its responsibility and mission as a central state-owned enterprise in the recognition of the Chinese culture, revitalize and lead the development of the TCM industry in China.

Wu Xian
Chairman

Hong Kong, 30 March 2021



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2020, the pandemic raged around the globe. After suffering its effects during the first quarter of the year, China's economy and the normal life of its people recovered due to stringent and effective pandemic prevention and control measures. TCM played an important role in the overall process of treating COVID-19, proving its usefulness as a "heavy weapon" for pandemic prevention and control.

During the year ended 31 December 2020 (the "Reporting Period" or the "Period"), the Group fulfilled its social responsibilities as a central stated-owned enterprise. It made every effort to resume work and production as soon as possible to ensure the drug supply and support pandemic prevention and control. Simultaneously, the Group seized on development opportunities for TCM, take pandemic prevention and control and economic development both into account, completed key tasks and targets, and achieved positive growth in its annual business performance.

During the Reporting Period, the Group's revenue was approximately RMB14,806,168,000, representing a 3.4% increase from the approximately RMB14,320,949,000 for the same period of the last year. This was mainly due to a slowed-down business growth being impacted by COVID-19 during the first half of the year. The concentrated TCM granules business contributed approximately RMB10,012,956,000 or 67.6% of total revenue. Revenue from the finished drugs business was approximately RMB3,066,883,000, representing 20.7% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB1,237,402,000, or 8.4% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB106,055,000, representing 0.7% of total revenue. Revenue from the local TCM integrated operation was approximately RMB382,872,000, representing 2.6% of total revenue.

BUSINESS REVIEW

In 2020, while participating in the fight against COVID-19 pandemic, the Group also focused on the strategic goal of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain". The Group improved quality control of Chinese medicinal herb sources, and contributed greatly to the construction of Good Agriculture and Collection Practices for Medicinal Plants ("GACP") bases. The Group continued to improve its overall planning to consolidate its leading position in the manufacture of TCM, established a product quality control system to improve the source traceability of Chinese medicinal herbs, enhanced the recognition of the "Dragon Seal Sino-TCM" brand and explored development of a diversified marketing model, leveraged scientific research to enhance its core competitiveness, and intensified system management to improve its corporate governance. These efforts led the Group to achieve a satisfactory ending to the 13th Five-Year Plan and lay a solid foundation for the start of the 14th Five-Year Plan. The following are the Group's business highlights of 2020:

I. FULFILLING SOCIAL RESPONSIBILITY AS A CENTRAL STATED-OWNED ENTERPRISE TO SUPPORT PANDEMIC PREVENTION AND CONTROL

During the first half of 2020 when China was experiencing the worst of the pandemic, TCM was unprecedentedly widely employed in both diagnosis and treatment. As General Secretary Xi Jinping observed, "A combination of traditional Chinese and Western medicine is a major feature of the pandemic prevention and control. It is also a good demonstration of the TCM industry inheriting of the essence and innovating while keeping the origin". According to the *Fighting Covid-19: China in Action* white paper, "TCM were administered to 92 percent of all confirmed cases. In Hubei Province, more than 90 percent of confirmed cases received TCM treatment that proved effective". Soon after the outbreak began, the Group, as the core platform of modern TCM industry under CNPGC, leveraged the whole industry chain to undertake its social responsibility as a central stated-owned enterprise to participate in the fight against the pandemic. It urgently allocated and transported concentrated TCM granules, finished drugs, TCM decoction pieces and other drugs to quickly establish a TCM supply platform, and provided TCM healthcare complex services to assist TCM playing unique advantage in treating diseases and containing the pandemic.

The Group demonstrated its strong capabilities in TCM manufacturing and R&D during the pandemic. Guangdong Yifang Pharmaceutical Co., Ltd. ("Guangdong Yifang") assisted the 8th People's Hospital of Guangzhou in the emergency approval and filing of "Toujie Quwen Granules" (透解祛瘟顆粒) (formerly known as "No. 1 formula for pneumonia") for medical institutions, and was commissioned to produce and distribute the preparations. Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Guizhou Tongjitang") was commissioned to produce "Chaigechangyuan mixture" (柴葛暢原合劑) and "Dayuan disinfectant mixture" (達原消毒合劑), independently developed by the Second Affiliated Hospital of Guizhou University of Traditional Chinese Medicine for medical institutions. Huayi Pharmaceutical Co., Ltd. assisted the Chinese Academy of Chinese Medical Sciences ("CACMS") to prepare "Huashi Baidu Granules" (化濕敗毒顆粒) for the clinical trial use in Wuhan Jinyintan Hospital.

In 2020, the Group donated medicines and materials with a total value of over RMB30 million to all sectors of the community and various organizations. The Group provided more than 95 million doses of concentrated TCM granules domestically, and supplied concentrated TCM granules to 63 overseas countries and regions.

II. STRENGTHENING THE QUALITY CONTROL OF CHINESE MEDICINAL HERB SOURCES, AND CONTRIBUTING GREATLY TO THE CONSTRUCTION OF GACP BASES

Since 12 government departments jointly issued the "Plan for the Protection and Development of Traditional Chinese Medicine (2015-2020)" in April 2015, more than 10 relevant policies and regulatory documents have been published at the national level to establish a long-term plan for the cultivation and standardized management of Chinese medicinal herbs. The core purpose of this series of policies is to promote the traceability of the whole TCM industry chain, solve difficulties in regulating the Chinese medicinal herbs industry, and require that TCM enterprises give priority to herbs from plantation bases that meet production quality management standards.

Relying on its existing nationwide industrial layout, the Group accelerated the establishment of GACP bases for a variety of widely used Chinese medicinal herbs. This is in line with the policy development direction and explore solutions for: **1) non-standardized planting:** blind introduction of a variety from the authentic medicinal herb production base to the non-authentic medicinal herb production bases, and abuse of chemical fertilizers and pesticides, resulting in a decline of potency; **2) non-standardized distribution:** representing non-medicinal parts as medicinal parts, and adulterating; **3) severe market fluctuation:** complicated distribution processes, opaque prices and susceptibility to market manipulation. The medicinal herbs from GACP bases will be supplied directly for production after unified classification.

During the Reporting Period, as coordinated by the Company, a total of 165 bases with a planted area of over 90,000 mus cultivating 69 medicinal herb varieties were jointly established by subsidiaries. The planting varieties and geographical distribution are as follows:

Province	Medicinal herb variety
Anhui	Radix Paeoniae Alba, Cortex Moutan, Gastrodiae Rhizoma
Chongqing	Cyathulae Radix, Angelicae Pubescentis Radix, Polygonati Rhizoma, Coptidis Rhizoma
Gansu	Pinellia Ternata, Chinese Rhubarb, Angelica Sinensis, Radix Codonopsis, Chinese Gancao, Radix Astragali
Guangdong	Morindae Officinalis Radix, Cmnamomi Mmulus, Cinnamomi Cortex
Guangxi	Curcumae Rhizoma, Cinnamomi Cortex, Curcumae Radix
Guizhou	Uncariae Ramulus Cum Uncis, Radix Cynanchi Bungei, Radix Seudostellariae, Epimedii Folium
Hebei	Rhizoma Atractylodis, Saposhnikoviae Radix, Armeniacae Semen Amarum
Henan	Prunellae Spica
Heilongjiang	Aconiti Kusnezoffii Radix, Great Burdock Achene
Hubei	Chinese Rhubarb, Angelicae Pubescentis Radix, Coptidis Rhizoma, Scrophulariae Radix
Hunan	Lilii Bulbus, Nelumbinis Semen, Polygonati Odorati Rhizoma, Aurantii FructusImmaturus, AurantiiFructus
Jilin	Isatidis Radix, Balloon Flower, Schisandrae Chinensis Fructus

Province	Medicinal herb variety
Jiangsu	Chrysanthemi Flos, Hirudo, Fritillariae Thunbergii Bulbus
Jiangxi	Stephaniae Tetrandrae Radix, Polygonati Rhizoma, Rosae Laevigatae Frucyus, Euryales Semen, Acori Tatarinowii Rhizoma, Euodiae Fructus, AurantiiFructus, Gardeniae Fructus
Inner Mongolia	Aconiti Kusnezoffii Radix, Ephedrae Herba
Ningxia	Lycii Fructus
Shandong	Honeysuckle, Scutellariae Radix, Crataegi Fructus
Shanxi	Radix Bupleuri, Fructus Cannabis, Sophorae Flavescentis Radix, Forsythiae Fructus, Polygala Tenuifolia Willd
Shaanxi	Gastrodiae Rhizoma, Corydalis Rhizoma, Polyporus
Sichuan	Chuanxiong Rhizoma, Aconiti Lateralis Radix Praeparata, Bombyx Batryticatus, Mori Fructus, Rhizoma Alismatis
Yunnan	Paridis Rhizoma, Poria, Aucklandiae Radix, Notoginseng Radix Et Rhizoma, Amomi Fructus
Zhejiang	Rubi Fructus, Fritillariae Thunbergii Bulbus

III. CONTINUING TO IMPROVE OVERALL INDUSTRIAL PLANNING TO CONSOLIDATE THE GROUP'S LEADING POSITION IN TCM MANUFACTURING

The Group carefully considered integrated optimization and centralized allocation of internal resources, and made a forward-looking business plan based on the planning and development needs of concentrated TCM granules and TCM decoction pieces. Since 2017, the Group has promoted its national industrial coverage under the local TCM integrated operation business model to guarantee full life-cycle management and control of the standardized development of a modern TCM manufacturing platform.

During the Reporting Period, in terms of concentrated TCM granules, the newly established local TCM integrated business enterprises made progress in the expansion of production capacity, resulting in a significant increase in production licenses for concentrated TCM granules extraction and preparation compared to the same period of the previous year. Some original finished drugs enterprises completed the expansion and technical upgrading of the industrial parks, obtaining the production capacity of concentrated TCM granules. In terms of finished drugs, the Group coordinated and adjusted production arrangements for TCM finished drugs and expedited the production of pandemic-related products to meet delivery demands. Additionally, the Group reduced its inventory of products affected by the pandemic, utilized production and marketing synergies, and ensured a reasonable balance of production, marketing and inventory of finished drugs. In terms of TCM decoction pieces, the Group adhered to its core positioning of "high quality TCM with raw materials from the major production areas of Chinese medicinal herbs", and leveraged the advantages of resources from authentic medicinal herb production bases to coordinate the production of processed decoction, medical decoction and premium decoction pieces scientifically, and improve the industrial synergy and performance of the TCM decoction pieces business.

Production licenses obtained by the Group were as follows:

Type of production license	Quantity	Provinces covered
Extraction of concentrated TCM granules	20	Anhui(2), Beijing, Gansu, Guangdong(2), Guangxi, Guizhou, Hubei, Jilin, Jiangsu, Jiangxi, Qinghai, Shandong, Shanxi, Shaanxi, Sichuan(2), Yunnan, Zhejiang
Preparation of concentrated TCM granules	17	Chongqing, Fujian, Guangdong, Guangxi, Guizhou, Heilongjiang, Hubei, Hunan, Jilin, Jiangsu, Jiangxi, Shandong, Shanxi, Shaanxi, Sichuan, Yunnan, Zhejiang
Decoction piece processing	21	Anhui, Chongqing, Beijing, Gansu(2), Guangdong, Guangxi, Guizhou, Hubei, Hunan, Jilin, Jiangsu, Jiangxi, Shandong, Shanxi, Shaanxi, Shanghai, Sichuan(2), Yunnan, Zhejiang
Finished drugs	11	Anhui, Beijing, Guangdong(3), Guizhou, Hubei(2), Jilin, Qinghai, Shandong

IV. ESTABLISHING A PRODUCT QUALITY CONTROL SYSTEM TO IMPROVE THE SOURCE TRACEABILITY OF TCM

To integrate and link up the entire industry chain of intelligent manufacturing of TCM and improve industry chain traceability, the Company, together with Ping An International Smart City Technology Co, Ltd ("Ping An Smart City") of Ping An insurance (Group) Co, Ltd, ("Ping An") jointly created an integrated management platform with quality control and traceability for TCM. The platform combines Ping An Smart City's core technologies in artificial intelligence, blockchain and cloud computing, with the Group's technologies for quality management of medicinal herbs and the control of heavy metals and pesticide residues in the planting process, as well as its resources in seed cultivation. By doing so, a management platform and quality control system of "traceable sources, traceable directions, processes controllable and responsibility accountable" for TCM products can be established.

In the first phase of a 2020-2021 pilot demonstration of authentic medicinal herb production bases, a total of 10 large varieties of Chinese medicinal herbs were selected. The traceability goal with deep trace with GACP planting as the core and the simple trace in compliance with GMP and GSP standards as the auxiliary means can be realized.

Province	**First batch of base-traceable varieties**
Anhui	Radix Paeoniae Alba
Gansu	Pinellia Ternata, Chinese Rhubarb, Chinese gancao
Guizhou	Radix Seudostellariae
Hubei	Angelicae Pubescentis Radix
Jiangxi	Polygonati Rhizoma
Shandong	Honeysuckle
Sichuan	Aconiti Lateralis Radix Praeparata
Zhejiang	Fritillariae Thunbergii Bulbus

V. ENHANCING RECOGNITION OF THE "DRAGON SEAL SINO-TCM" BRAND TO EXPLORE DEVELOPMENT OF A DIVERSIFIED MARKETING MODEL

The Group's customers are mainly medical institutions. As these medical institutions affected greatly by outbreaks of the pandemic, in order to protect the safety of the high-risk population, even the outbreak was of a small and local magnitude, they responded in a short time, resulting in major disruptions to traditional drug marketing model.

During the Reporting Period, all business segments of the Group explored diversified marketing models and sought breakthroughs in adapting their marketing "new normal" under the pandemic. In the concentrated TCM granules segment, the Group persisted in academic promotion, established an expert support system, implemented marketing activities targeted at specific diseases, explored online channels, and further expanded its sales channels through collaboration with an internet diagnosis and treatment platform. In the TCM decoction pieces segment, the Group continued to expand its sales channel covering under the "sharing of TCM intelligent distribution center" model, with 14 centers established covering nine provinces and cities, including Beijing, Shanghai and Guangdong. In the finished drugs segment, while seriously impacted by the pandemic during the first half of the year, the Group actively explored the online sales channels, attempted to undertake online academic activities, and explored cooperation with internet hospitals and drug sales platforms. In the TCM healthcare complex segment, the Group put more efforts in product development, launched TCM preventive formulas in response to market demand during the pandemic, and successfully used internet channels for online diagnosis and treatment services and various marketing activities.

In terms of brand promotion, during the Reporting Period, the Group continued to strengthen the marketing policy for the "Dragon Seal Sino-TCM" brand on the basis of its positioning as "high quality TCM with raw materials from the major production areas of Chinese medicinal herbs". In regards to high-quality products such as finished drugs and premium decoction pieces, the Group stepped efforts to publicize and shape brands in a range of media. The Company also established an internet marketing business department to explore the online consumer goods market, tap the online development potential of homologous healthcare complex products, and further raise the profile of the "Dragon Seal Sino-TCM" brand among terminal customers.

VI. LEVERAGING FIRST-MOVER ADVANTAGE IN SCIENTIFIC RESEARCH TO ENHANCE CORE COMPETITIVENESS

The Group's leading postition in the concentrated TCM granules business has created a high technical barrier in the industry, providing a strong impetus for the strategic upgrade and high quality development the segment. During the Reporting Period, the Group continued to promote research on national standards for concentrated TCM granules, and submitted 34 standards for new concentrated TCM granule varieties to the Chinese Pharmacopoeia Commission. In total, the Group has submitted 300 standards for concentrated TCM granule varieties. To better adapt to industry policies and the national standards for concentrated TCM granules, the Group continued to promote research on the production adaptability of national standards for concentrated TCM granules, the implementation of national standards, and took advantages of internal collaboration to gradully realize high production standards for all concentrated TCM granules varieties. Meanwhile, having considered that provincial standards for concentrated TCM granules varieties without national standards must be established before they can be sold on the market, the Group is promoting and supplementing the formulation and filing of provincial standards for concentrated TCM granules through its local subsidiaries.

According to the "Requirements for Registration, Classification and Application of Traditional Chinese Medicine" issued by the National Medical Products Administration ("NMPA") on 27 September 2020, the ancient classical prescriptions for TCM compound preparation ("classical formulae") have been clearly established as a product category of new TCM drugs. The regulatory requirements for classical formulae products are being gradually clarified, and it is also one of the representative products to promote the innovative TCM drugs R&D and industrial development. Therefore, the Group has been insisting in launching the research on classical formulae. During the Reporting Period, the Group actively established a R&D system of "concentrated TCM granules + classical formulae". It accelerated research on 35 classical formulae by utilizing the advantages of the single medicinal herb of concentrated TCM granules and its TCM industry chain resources. The Group has established research methods for 20 classical formulae, basically completed substance benchmark research for seven classical formulae, updated the *Trilogy of the General Research Idea of Classical Formulae* to the fourth edition, and formulated the supporting specific operating procedures.

During the Reporting Period, the Group and the CACMS jointly promoted the industrial transformation of major scientific research achievements for the pandemic. Guangdong Yifang was responsible for research on manufacture and quality standards for Huashi Baidu Granules, and introduced advanced manufacturing technology, strict quality standards and complete production process management to facilitate the transformation of scientific achievement of the innovative TCM drug. On 2 March 2021, Huashi Baidu Granules were approved by NMPA for marketing.

VII. ENHANCING SYSTEMATIC MANAGEMENT THINKING TO IMPROVE CORPORATE GOVERNANCE

During the Reporting Period, the Group continued to strengthen its management systems and management capacity, improving both its efficiency and performance. The special work on quality and efficiency improvement was carried out comprehensively, involving 11 headquarter departments and 75 subsidiaries, with over 500 projects covering nine major categories such as industry regulations, sales and management, laying foundation for the annual net profit growth exceeding the revenue growth. Through projects such as pull production, micro-innovation and quality control circles, we explore and implement lean management ideas and methods to improve quality and increase efficiency, enhancing corporate value and promoting sustainable high-quality corporate development.

In terms of improving the operation management supervision and early warning mechanism, we have built an information-based approval process framework to comprehensively cover the decision-making process of subsidiaries at all levels and strengthen the risk early warning and tracking management of the operation decision-making process, so as to effectively enhance the rigour of the decision-making process, standardise and improve the quality of decision-making.

The Group continued to optimise our human resources management system, focusing on the assessment and cultivation of professional talents in key areas, and scientifically launched the construction of our core mid-level professionals. 969 personnel were assessed and certified during the Reporting Period, including 485 management talents and 484 professional and technical talents. At the same time, we launched a management capability development project for senior management of our subsidiaries to improve the overall quality of our senior management team.

In terms of safety, energy saving and quality management, the Group actively implemented its production safety objectives and carried out various on-site inspections and special rectification work at 34 subsidiaries to eliminate safety hazards. Meanwhile, during the Reporting Period, the Group invested more than RMB40 million in energy saving and environmental protection projects, and reasonably controlled the overall energy consumption to achieve environmental protection and energy saving requirements.

By taking different measures and comprehensively optimizing its enterprise management and its level of corporate governance, the foundation of the Company’s long-term development was strengthened.

POLICY UPDATES

The development of TCM has been made a matter of great importance by the state, and in recent years a number of relevant documents have been published. Following the "Opinion on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine" issued by the Central Committee of the Communist Party of China and the State Council in 2019, the general office of the State Council issued "Several Policies and Measures to Accelerate the Development of Traditional Chinese Medicine" on 9 February 2021. These put forward specific and practical opinions on the development of TCM from seven aspects, giving a better perspective on the characteristics and comparative advantages of these medicines and encouraging the complementary and coordinated development of traditional Chinese and Western medicine.

On 10 February 2021, NMPA, National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued the Announcement. As a milestone policy for the industry, the document clearly stipulates regulatory principles of concentrated TCM granules, qualification of production enterprises, requirements for the use of Chinese medicinal herbs, product processing technology and quality standards, sales scope, medical insurance policy and other aspects. It will strengthen the management of concentrated TCM granules, standardise the production, and guide the industry to have a healthy and orderly development. The Announcement will be officially implemented on 1 November 2021, and it will have a profound impact on the Group's concentrated TCM granules business. First, the Announcement calls for the management of concentrated TCM granules as TCM decoction pieces. Second, the application of national and provincial standards for concentrated TCM granules will test the strength of the Company's scientific research and the accumulation of government communication results. However, In general, the Announcement's implementation will be conducive to the industry's standardisation and development. It not only represents new opportunity for the Group's concentrated TCM granules business, but also presents higher requirements for the Group's industrial collaboration and costs and quality control.

Reviewing the Group's business planning and scientific research investment in the past few years, the Group basically meets the requirements of the Announcement and has made full preparations in advance. The Group's current plan which matches the requirements of the Announcement, is as follows:

Regulatory content	Regulatory requirements	Current related progress of the Group
Qualification of production enterprise	The enterprises producing concentrated TCM granules shall have the production scope for TCM decoction pieces as well as for granules, and have the complete production capacity to process, extract, separate, concentrate, drying and granulation of traditional Chinese medicine. The production enterprises shall prepare TCM decoction pieces for the production of concentrated TCM granules by themselves.	During the year, 17 enterprises of the Group met the requirements of the Announcement for the qualification of production enterprises. At the same time, the Group's national industrial coverage will better meet future production capacity and developmental needs through industrial collaboration and capacity sharing among comprehensive enterprises in different regions.

Regulatory content	Regulatory requirements	Current related progress of the Group
Management requirements on Chinese medicinal herbs	Traditional Chinese medicinal herbs planted at the Good Agricultural Practice bases should be given priority over artificially cultivated varieties, and the use of authentic medicinal herbs should be advocated.	The Group contributes greatly to the construction of GACP bases, and strictly controls the quality of Chinese medicinal herbs.
Standards for concentrated TCM granules	Concentrated TCM granules shall meet the national drug standards, and those not specified in the national drug standards shall meet the standards formulated by the provincial drug regulatory department.	The Group invests in R&D on concentrated TCM granules every year, and now has the production capacity for granule varieties under national standards. According to the "Technical Requirements for Quality Control and Standard Formulation of Concentrated TCM Granules", the Group promotes the imposition of provincial standards in all provinces, which will help to break communication barriers, form a unified standard within the Group, reduce costs, and consolidate the Group's market position.
Concentrated TCM granules sales channels	Concentrated TCM granules shall not be sold outside medical institutions.	Before the market liberalization, the Group had a market share of over 50%. After an expansion of sales channels, the Group's scale and cost advantages will contribute to expanding its channel coverage.
Medical insurance management of concentrated TCM granules	For those TCM decoction pieces that have been included in the scope of payment for medical insurance, the provincial health insurance departments may, after taking into account factors such as clinical needs, the fund's affordability and prices, include the concentrated TCM granules corresponding to TCM decoction pieces in the scope of payment after expert evaluation, and manage them with reference to category B.	The Group has the capacity to produce concentrated TCM granules in over 20 provinces across the country and is currently strengthening its communication with the relevant local medical insurance departments to strive for inclusion in the reimbursement coverage of medical insurance.

INVESTMENT PROJECTS

The Group had no significant investments in 2020. As of the date of this report, the Group had no plans for material investments or acquisitions of capital assets.

ANALYSIS OF BUSINESS SEGMENTS

From the end of 2017 to 2020, pursuant to the strategic goal of building a whole TCM healthcare industry chain, and amidst changing policies for the concentrated TCM granules industry, the Company began to undertake an expansion of its strategic presence in major authentic medicinal herbs producing provinces in the PRC and to establish the "local TCM integrated operation" companies which produce concentrated TCM granules, decoction pieces, and conduct local primary processing and trading of medicinal herbs and decoction. The establishment of such companies can provide the Group with authentic local medicinal herbs and reduce the cost of mass production of local products; while stationed locally, the Group can enjoy the preferential policies of the local market, further open up the local market, increase the market share, and form a comprehensive competitive advantage.

In order to better present to the readers of this report with the original concentrated TCM granules companies (Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") and Guangdong Yifang and their subordinate production companies) and the newly added local TCM integrated operation business, starting from the 2019 interim report, the Company rearranged its business segments into five segments: concentrated TCM granules, finished drugs, TCM decoction pieces, TCM healthcare complex and local TCM integrated operation, which has formed a stable business operation structure upon the Reporting Period.

During the Reporting Period, the Company added five new subsidiaries and deregistered one subsidiary. Among them, Shandong Yifang Pharmaceutical Co., Ltd. was newly established for the concentrated TCM granules segment; for the finished drugs segment, Hubei Sinopharm Zhonglian Pharmaceutical Co., Ltd. (湖北國藥中聯醫藥有限公司) was newly acquired and Qinghai Pulante Chinese and Tibetan Medicine R&D Co., Ltd. was deregistered; for the TCM decoction pieces segment, Gansu Longzhong Pharmaceutical Co., Ltd. (甘肅隴中藥業有限公司) ("Longzhong Pharmaceutical") was newly acquired; for the local TCM integrated operation segment, Guangxi Fangning Pharmaceutical Co., Ltd. was established; for the TCM healthcare complex segment, Guangdong Qifeng Health Industry Co., Ltd. (廣東旗峰健康產業有限公司) was established.

Segment	**Number of Companies as at the End of 2020**	Number of Companies as at the End of 2019	Year-on-year Change (number)
Holding company	**10**	10	–
Concentrated TCM granules	**13**	12	+1
Finished drugs	**20**	20	–
TCM decoction pieces	**20**	19	+1
TCM healthcare complex	**11**	10	+1
Local TCM integrated operation	**18**	17	+1
Total	**92**	88	+4

Key enterprises of concentrated TCM granules: Guangdong Yifang, Longxi Yifang Pharmaceutical Co., Ltd., Jiangyin Tianjiang and Anhui Tianxiang Pharmaceutical Co., Ltd.

Key enterprises of finished drugs: Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd., Guizhou Tongjitang, Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. and Sinopharm Group Zhonglian Pharmaceutical Co., Ltd.

Key enterprises of TCM decoction pieces: Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd., Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") and Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao")

Key enterprises of TCM healthcare complex: Sinopharm Group Foshan Feng Liao Xing Healthcare Complex Co., Ltd. and Guizhou Tongjitang Pharmacy Chain Co., Ltd.

Key enterprises of local TCM integrated operation: Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd. ("Shuanglanxing Pharmaceutical"), Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. ("Sichuan Sino") and Yunnan Tianjiang Yifang Pharmaceutical Co., Ltd. ("Yunnan Tianjiang").

1. CONCENTRATED TCM GRANULES

Key financial indicators for the concentrated TCM granules business

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Revenue	**10,012,956**	9,227,314	8.5%
Cost of sales	**2,953,773**	3,023,074	-2.3%
Gross profit	**7,059,183**	6,204,240	13.8%
Gross profit margin	**70.5%**	67.2%	3.3ppt
Operating profit	**2,218,729**	2,077,895	6.8%
Profit for the year	**1,743,271**	1,548,868	12.6%
Net profit margin	**17.4%**	16.8%	0.6ppt

During the Reporting Period, the revenue of the concentrated TCM granules business was approximately RMB10,012,956,000, representing an increase of 8.5% over last year, representing 67.6% of the total revenue, due to the impact of COVID-19 pandemic.

The Company actively responded to the pandemic: (1) proactively leveraging on the obvious advantages of concentrated TCM granules in terms of controllability, convenience and efficacy during the pandemic, with sales growth in the relevant pandemic prevention varieties; (2) increasing investment in dispensing machines and increasing customer stickiness; (3) continuously increasing the development of medical customers in recent years, especially for primary medical institutions, with significant increase in revenue from relevant customers during the year. Revenue from the concentrated TCM granules business in the second half of the year increased by 16.9% as compared to the same period last year and by 19.1% compared to the first half of the year.

Gross profit margin increased by 3.3 percentage points to 70.5% from 67.2% last year, mainly due to the extension of some product price adjustment factors in 2019 to 2020 in order to meet market demand and adapt channel promotion; the increase in the sales volume of some high-margin products during the Period; the obvious advantages of production with large-scale and intensification, and the Group's efforts to implement lean management to further reduce unit production costs.

During the Reporting Period, the Company continued to expand its market development externally while coped with the pandemic and took various measures internally to reduce costs and increase efficiency, resulting in a profit of approximately RMB1,743,271,000 for the concentrated TCM granules business for the year, representing an increase of 12.6% as compared with the same period of last year and net profit margin increasing by 0.6 percentage point over last year.

The main reasons of changes in indicators were: (1) gross profit margin increased by 3.3 percentage points as compared with last year; (2) through a series of management measures such as cost reduction and efficiency enhancement, the impact of the pandemic on profit was effectively offset, including a year-on-year decrease of 0.3 percentage point in administrative expenses ratio and a year-on-year decrease of 0.9 percentage point in finance costs ratio; (3) due to the impact of the pandemic, revenue growth slowed down, the proportion of fixed expenses in sales management and transportation costs increased. However, in order to further expand the market, related selling expenses increased and the selling expense ratio for the Period increased by 2.9 percentage points as compared to last year; (4) continued to increase investment in research and development of the national standard for concentrated TCM granules and commenced research on No. 1 formula for pneumonia, resulting in an increase of 0.3 percentage point in the ratio of research and development expenses to revenue for the Period as compared to last year.

Revenue analysis by region (RMB million)

Region	**2020**	**Proportion**	2019	Proportion	Growth amount	Growth rate
East China	**2,978.88**	**29.7%**	2,854.55	30.8%	124.33	4.4%
South China	**2,352.90**	**23.5%**	2,104.18	22.8%	248.72	11.8%
North China	**1,417.27**	**14.1%**	1,263.81	13.7%	153.46	12.1%
Central China	**1,086.94**	**10.9%**	1,012.86	11.0%	74.08	7.3%
Northwest China	**867.61**	**8.7%**	689.71	7.5%	177.90	25.8%
Northeast China	**376.93**	**3.8%**	431.04	4.7%	-54.11	-12.6%
Southwest China	**845.72**	**8.4%**	771.12	8.4%	74.60	9.7%
Overseas and others	**86.71**	**0.9%**	100.04	1.1%	-13.33	-13.3%
Total	**10,012.96**	**100.0%**	9,227.31	100.0%	785.65	8.5%

During the Reporting Period, sales in east, south, north and central China accounted for 78.2% of total sales, compared with 78.3% for the same period last year. Sales in south, north and northwest China achieved a year-on-year increase of more than 10.0%.

Notes:

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

South China (including Guangdong, Guangxi and Hainan)

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

Central China (including Henan, Hubei and Hunan)

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

Northeast China (including Heilongjiang, Jilin and Liaoning)

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

2. FINISHED DRUGS

Key financial indicators for the finished drugs business

	Twelve months ended 31 December		
	2020 RMB'000	2019 RMB'000	Change
Revenue	**3,066,883**	3,504,656	-12.5%
Cost of sales	**1,313,997**	1,381,053	-4.9%
Gross profit	**1,752,886**	2,123,603	-17.5%
Gross profit margin	**57.2%**	60.6%	-3.4ppt
Operating profit	**359,174**	416,169	-13.7%
Profit for the year	**220,566**	253,209	-12.9%
Net profit margin	**7.2%**	7.2%	0.0ppt

Revenue analysis by product type (RMB million)

	Twelve months ended 31 December				
Type of product	**2020**	**Proportion**	2019	Proportion	Change
Prescription products specification	**2,106.20**	**68.7%**	2,284.36	65.2%	-7.8%
OTC products specification	**960.68**	**31.3%**	1,220.30	34.8%	-21.3%
Total	**3,066.88**	**100.0%**	3,504.66	100.0%	-12.5%

Note: Prescription products specification: products specification that are primarily sold at the hospital end.

OTC products specification: products specification that are mainly sold at the OTC end.

During the Reporting Period, revenue of the finished drugs business decreased as compared to the same period last year due to the impact of the pandemic, amounting to approximately RMB3,066,883,000, representing a decrease of 12.5% as compared to last year and representing 20.7% of the total revenue. The decline in revenue in the second half of the year was mitigated by the Company's enhanced marketing and other measures. Revenue for the second half of the year decreased by 2.4% as compared to the same period last year and increased by 35.1% as compared to the first half of the year.

Major reasons for the decline in sales: (1) for prescription products specification, during the pandemic, outpatients at all levels of medical institutions substantially decreased in phases, and sales fell sharply; at the same time, the product structure changed, and non-respiratory products including Xianling Gubao Capsules and Moisturizing and Anti-Itching Capsules were greatly affected. Through the adjustment to sales strategies for the second half of the year, the revenue of a number of products increased, and the revenue growth rate of Jingshu Granules and Trionycis Bolus turned from negative to positive. Yu Ping Feng Granules and Jinye Baidu Granules recorded a significant increase in revenue as they were included in the COVID-19 prevention scheme, diagnosis and treatment plans of various provinces; and (2) for OTC products specification, during the pandemic, pharmaceutical retailers implemented real-name registration of customers who purchased medicines to relieve fever and cough, together with a reduction in the flow of pharmacies, which has affected the sales of products to relieve cough and sputum and fever-relieving products.

During the Reporting Period, under the severe impact of the pandemic, the Company strengthened expense control, reduced costs and increased efficiency, basically maintaining the net profit margin at the same level as last year. The profit of the finished drugs segment for the year was approximately RMB220,566,000, representing a decrease of 12.9% as compared with the same period of last year. The changes in indicators were mainly due to: (1) the decrease in gross profit margin by 3.4 percentage points to 57.2% from 60.6% last year, as a result of the significant decline in sales of non-epidemic-prevention medicines with higher gross profit margin, such as Xianling Gubao Capsules, Bi Yan Kang Tablets and Feng Liao Xing Rheumatism Medicinal Wine, resulting in a decline in production. Also, some products were affected by rising raw material prices, resulting in the increase in unit production costs; (2) a decrease of 1.2 percentage points in sales expense ratio through reasonable control of marketing expenses of the Company; and (3) relevant asset losses decreased year-on-year.

3. TCM DECOCTION PIECES

Key financial indicators for the TCM decoction pieces business

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Revenue	**1,237,402**	1,296,953	-4.6%
Cost of sales	**1,049,405**	1,096,272	-4.3%
Gross profit	**187,997**	200,681	-6.3%
Gross profit margin	**15.2%**	15.5%	-0.3ppt
Operating profit	**-33,213**	21,573	-254.0%
Profit for the year	**-36,490**	24,182	-250.9%
Net profit margin	**-2.9%**	1.9%	-4.8ppt

During the Reporting Period, revenue of the TCM decoction pieces business was approximately RMB1,237,402,000, representing a decrease of 4.6% as compared to approximately RMB1,296,953,000 for the last year and accounting for 8.4% of the total revenue. Revenue for the second half of the year decreased by 3.1% as compared with the same period of last year and increased by 18.2% as compared with the first half of the year.

The decline in revenue of the TCM decoction pieces business was mainly attributable to: (1) the severe situation of prevention and control in hospital during the pandemic, which resulted in a significant reduction in customer flow to hospitals and pharmacies and the adoption of appointment restrictions at all levels of medical institutions, resulting in a contraction in demand for decoction pieces in the medical market; and (2) the significant drop in external customer demand for industrial decoction pieces, due to the impact of the pandemic.

The loss incurred by the TCM decoction pieces business during the Reporting Period was mainly attributable to: (1) the relatively low overall net profit margin of the TCM decoction pieces business and the decline in sales volume with the impact of the pandemic, it was difficult to offset the fixed cost expenses; (2) due to the impact of the serious pandemic in Beijing, the sales of Beijing Huamiao dropped significantly and the cost of pandemic prevention increased, resulting in an impairment loss of goodwill of approximately RMB11,447,000 for the Period; and (3) Six TCM decoction pieces companies under construction have not yet commenced sales and there are certain expenses for start-up costs, and the newly acquired enterprise, Longzhong Pharmaceutical, is still in the process of transferring its business, making it difficult for revenue to cover costs.

4. TCM HEALTHCARE COMPLEX

Key financial indicators for the TCM healthcare complex

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Revenue	**106,055**	89,661	18.3%
Cost of sales	**58,863**	50,527	16.5%
Gross profit	**47,192**	39,134	20.6%
Gross profit margin	**44.5%**	43.6%	0.9ppt
Operating profit	**-4,524**	-15,641	71.1%
Profit for the year	**-8,151**	-16,463	50.5%
Net profit margin	**-7.7%**	-18.4%	10.7ppt

During the Reporting Period, the TCM healthcare complex business had a total of eight TCM clinics in operation. Revenue was approximately RMB106,055,000, representing an increase of 18.3% from approximately RMB89,661,000 for the last year, and accounting for 0.7% of total revenue. By carrying out online dispensing business, selling pandemic prevention prescriptions and strengthening promotion activities during festivals, TCM clinics were able to alleviate the impacts of the pandemic. Following the market cultivation for a certain period, the flow of customers of Nanhai TCM Clinic, Chengnan TCM Clinic, Tongkang TCM Hospital, Zunyi TCM Hospital and Jiangyin TCM Clinic, which were successively opened in the second half of 2018, has gradually increased with increasing income as compared with last year. With a higher increase in revenue than in expenses and a decrease in expense ratio, the loss was lower than that of last year.

5. LOCAL TCM INTEGRATED OPERATION

Key financial indicators for the local TCM integrated operation

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Revenue	**382,872**	202,365	89.2%
Gross profit margin	**20.6%**	4.0%	16.6ppt
Other income	**57,769**	38,253	51.0%
Administrative expenses	**100,615**	60,294	66.9%
Operating profit	**-49,535**	-39,280	-26.1%
Profit for the year	**-58,552**	-36,499	-60.4%
Net profit margin	**-15.3%**	-18.0%	2.7ppt

During the Reporting Period, the revenue of the local TCM integrated operation segment amounted to approximately RMB382,872,000, representing an increase of 89.2% compared with the revenue of RMB202,365,000 for the last year, and accounting for 2.6% of total revenue. The increase in the revenue of the local TCM integrated operation segment was mainly because: (1) Sichuan Sino, Yunnan Tianjiang and Shuanglanxing Pharmaceutical had commenced concentrated TCM granules sales business. Following one-year market cultivation, sales increased significantly. The sales of concentrated TCM granules were approximately RMB117,518,000, compared to approximately RMB36,753,000 for the previous year; (2) Shandong Zhongping Pharmaceutical Co., Ltd. ("Shandong Zhongping"), located in Pingyi, Shandong, the hometown of honeysuckle, has developed honeysuckle-based sales business of authentic medicinal herbs, increasing its external turnover by approximately RMB65,175,000 year on year. At the same time, other local TCM integrated operation companies also generally launched production and sales of TCM decoction pieces and TCM medicinal herbs trading.

During the Reporting Period, the sales of the concentrated TCM granules and TCM decoction pieces increased and the gross profit margin gradually improved as the infrastructure projects of the local TCM integrated operation business were gradually consolidated during the year. However, with the exception of Shandong Zhongping which has a stable business in honeysuckle, and Sichuan Sino which has relatively large sales size of concentrated TCM granules, other companies in this segment are still in the early stage of operation and have not yet made a profit due to the investment in market development, depreciation of fixed assets and more staff costs. However, with the gradual release of the production capacity of the concentrated TCM granules and TCM decoction pieces, its profitability will be enhanced sooner.

PROSPECTS

With the publish of the Announcement, the pilot management for concentrated TCM granules, ongoing for more than 20 years, will officially cease on 1 November 2021. Therefore, in 2021, the Group will accelerate the business planning for concentrated TCM granules across the nation and prepare for the implementation of the new policy. We will also actively coordinate with other business segments to work in tandem to further improve the details of the integration of the industry chain and promote the synergistic development of each segment. At the same time, the Group will respond to the call of the government and actively participate in the development of the Guangdong-Hong Kong-Macau Greater Bay Area by promoting the Macau Chinese Medicine (Hengqin) Industrial Park project, so as to promote the internationalisation of TCM by leveraging Macau's role as a window and connector.

The specific key tasks include: 1. accelerate the establishment of GACP bases, build a modernized GACP base integrated with the cultivation of medicinal herbs, initial processing of production sites, inspection and testing, warehousing and logistics, trade of medicinal herbs and data traceability with the support of various local integrated TCM operation companies, and meet the requirements of product lifecycle management; 2. accelerate the coordinated development of TCM decoction pieces and concentrated TCM granules business, promote the transformation of the preliminary industrial layout into production cost and sales advantages, and strive to consolidate the industry position and increase market share after the market is liberalized; 3. accelerate R&D on standards for concentrated TCM granules, strive to complete R&D on provincial standards for all varieties before official implementation of the policy, and finish the application of provincial standards, so as to seize market opportunities and form technical barriers; 4. unify publicity for Group brands, expand the internet marketing business, and enhance awareness of the "Dragon Seal Sino-TCM" brand; 5. adjust and optimize the finished drugs and TCM decoction pieces segments by clarifying sales and operation plans according to the market characteristics of both segments and enterprise conditions, so as to improve performance.

By comprehensively improving the operational performance of each segment, the Company will improve the quality of its development, consolidate its industry position, and usher into a new stage of development after the official implementation of the concentrated TCM granules policy.

FINANCIAL REVIEW

Other income

For the twelve months ended 31 December 2020, the Group's other income was approximately RMB254,556,000, representing an increase of 13.0% from approximately RMB225,368,000 for the previous year. This was mainly because: the Group received government subsidy income grant of approximately RMB197,067,000 during the Period, representing an increase of 20.2% over the previous year. For details, please refer to note 7 to notes to the consolidated financial statements.

Other gains and losses

For the twelve months ended 31 December 2020, the Group's other gains were approximately RMB8,212,000 (twelve months ended 31 December 2019: other losses of approximately RMB63,093,000). During the Reporting Period, the reasons for the change in other gains and other losses are that: exchange losses for the Period were decreased by approximately RMB11,739,000; the provision made for goodwill impairment decreased by approximately RMB13,347,000; the Company continued to carry out inspection of assets and liabilities and recorded non-operating income of approximately RMB37,304,000.

Impairment losses under expected credit loss model, net of reversal

Due to the COVID-19 pandemic, the balance of accounts receivable increased as at 31 December 2020. According to the Group's credit impairment loss provision policy, the provision for credit impairment loss was approximately RMB53,725,000 for the Period, compared to approximately RMB18,009,000 for last year.

Selling and distribution costs

For the twelve months ended 31 December 2020, the Group's selling and distribution costs were approximately RMB5,586,737,000 (twelve months ended 31 December 2019: RMB5,109,153,000).

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Advertising, promotion, channel expansion and travel expenses	**3,820,407**	3,194,802	19.6%
Salary expenses of sales and marketing staff	**787,694**	727,410	8.3%
Transportation and storage expenses (Note)	**337,336**	247,935	36.1%
Other selling and distribution costs	**641,300**	939,006	-31.7%
Total	**5,586,737**	5,109,153	9.3%

Note: In order to better understand the related expenses of "distribution costs" in the past reports, "distribution costs" was renamed as "transportation and storage expenses" in this report, while the data coverage remained the same.

During the Reporting Period, the Group's selling and distributions costs increased by 9.3% over the previous year and accounted for 37.7% of revenue, 2.0 percentage points higher than 35.7% for the previous year, mainly due to: (1) the concentrated TCM granules business was affected by the pandemic and revenue growth slowed down. The proportion of fixed expenses in sales management increased and transportation costs increased, however, in order to further expand the market, the related selling expenses increased and the selling expense ratio for the Period increased by 2.9 percentage points as compared to last year; (2) with the gradual commencement of the local TCM integrated operation business which was in the market cultivation stage, the greatly expanded sales scale has resulted in a significant increase in the corresponding sales expenses over the previous year; and (3) the TCM decoction pieces business strengthened the self-built promotion team, and established the premium decoction piece department, activated the promotion work of the "Dragon Seal Sino-TCM" brand.

Administrative expenses

For the twelve months ended 31 December 2020, the Group's administrative expenses were approximately RMB707,278,000 (twelve months ended 31 December 2019: RMB686,189,000).

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Salary	**355,957**	338,647	5.1%
Depreciation and amortisation	**83,746**	78,940	6.1%
Office rental and other expenses	**267,575**	268,602	-0.4%
Total	**707,278**	686,189	3.1%

During the Reporting Period, administrative expenses increased by 3.1% over the previous year, which was lower than revenue growth. Major reasons for this are: (1) the increase in the management office buildings and equipment asset depreciation and amortization, salary expenses and office expense of management staff, with the completion of establishment and commencing production of companies in the local TCM integrated operation segment; (2) the increased expenses for pandemic prevention and control of the Company during the pandemic; and (3) the active implementation of cost reduction and efficiency improvement projects of the Company during the Period, which effectively controlled administrative expenses.

Research and development expenses

For the twelve months ended 31 December 2020, the Group's research and development expenses amounted to approximately RMB550,472,000, representing an increase of 18.6% over approximately RMB463,996,000 for the previous year. Research and development expenses are mainly used to: (1) improve quality standards research, focusing on concentrated TCM granules standards; (2) improve future benefit research, focusing on research and development of new drugs and classical formula; (3) improve future efficiency research, focusing on production process improvement and base construction research; and (4) support special R&D expenditure for pandemic prevention products.

Profit from operations

For the twelve months ended 31 December 2020, the Group's profit from operations was approximately RMB2,490,631,000, representing an increase of 1.2% compared to approximately RMB2,460,716,000 for the previous year. The operating profit margin (defined as profit from operations divided by revenue) was 16.8%, representing a decrease of 0.4 percentage points from 17.2% for the previous year. The decrease in operating profit margin was mainly because under the impact of COVID-19 pandemic, although the operational profit of the concentrated TCM granules business increased as compared with the same period of last year, the finished drugs and TCM decoction pieces businesses were more affected by the pandemic and the profitability of the local TCM integrated operation business was delayed. Therefore, the overall operational profit decreased.

Finance costs

For the twelve months ended 31 December 2020, the Group's finance costs were approximately RMB244,666,000 (twelve months ended 31 December 2019: RMB301,047,000). The Group lowered the ratio of financial expenses accounted to revenue by reducing the size of factoring, adjusting financing products and strengthening the internal fund allocation. During the Reporting Period, capitalised finance costs of the Group were RMB8,625,000. Bank and other loans held by the Group as at 31 December 2020 amounted to approximately RMB1,879,436,000, and corporate bonds of approximately RMB3,237,316,000 were also held (as at 31 December 2019: bank and other loans held by the Group amounted to approximately RMB799,334,000; and corporate bonds of approximately RMB4,868,724,000 were held).

During the Reporting Period, the Group's effective loan interest rate was 3.34% (twelve months ended 31 December 2019: 4.18%). The reasons for the decline in the effective interest rate during the Period were: (1) certain subsidiaries obtained policy loans for pandemic prevention at preferential interest rates; (2) the borrowing interest rates of the three-year medium-term notes and the Super & Short-term Commercial Paper issued in 2020 decreased year on year; and (3) certain bank loans with high interest rates were replaced. The Group will continue to pay attention to changes in market interest rates, adjust the form of loan financing in a timely manner, and refinance existing loans or enter into new bank loans when good bargaining opportunities arise.

Share of results of associates

For the twelve months ended 31 December 2020, the Group shared loss attributable to associates of approximately RMB15,874,000, compared to approximately RMB5,051,000 for the previous year. The Period mainly represented the equity investment in Guangdong Baobaobao Healthy Soup Co., Ltd., which recognised an investment loss of approximately RMB12,528,000, and the equity investment in Guangdong Haisikanger Rehabilitation Medical Co., Ltd., which recognised an investment loss of approximately RMB2,086,000.

Earnings per share

For the twelve months ended 31 December 2020, earnings per share were RMB33.03 cents, representing an increase of 4.7% over RMB31.54 cents for the previous year. The increase in earnings per share was due to profit attributable to equity holders of the Company during the Reporting Period, which increased by 4.7% to approximately RMB1,663,255,000 (twelve months ended 31 December 2019: RMB1,588,114,000).

Liquidity and financial resources

As at 31 December 2020, the Group's current assets amounted to approximately RMB15,131,539,000 (31 December 2019: RMB15,323,624,000), which included cash, cash equivalents and deposits with banks of approximately RMB3,806,318,000 (31 December 2019: RMB5,989,801,000), of which the pledged bank deposits amounted to approximately RMB163,078,000 mainly for bills payable security (31 December 2019: RMB376,168,000). Trade and other receivables amounted to approximately RMB5,033,004,000 (31 December 2019: RMB3,457,951,000). Current liabilities amounted to approximately RMB7,534,600,000 (31 December 2019: RMB11,147,012,000). Net current assets aggregated to approximately RMB7,596,939,000 (31 December 2019: RMB4,176,612,000). The Group's current ratio was 2.0 (31 December 2019: 1.4). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to shareholders of the Company) decreased to 28.3% as at 31 December 2020 from 34.1% as at 31 December 2019. The decrease in gearing ratio was mainly due to a decrease in the amount of bonds payable and an increase in equity attributable to equity holders of the Company.

Bank and other borrowings and pledge of assets

As at 31 December 2020, the Group's balance of bank and other borrowings was approximately RMB1,879,436,000 (31 December 2019: RMB799,334,000), of which approximately RMB831,478,000 (31 December 2019: RMB336,061,000) was secured loans. Certain of the Group's assets with carrying values of RMB469,219,000 (2019: RMB377,768,000) were pledged to secure bank borrowings. Out of the balance of bank and other borrowings, approximately RMB1,658,026,000 and RMB221,410,000, were repayable within one year and over one year respectively (31 December 2019: approximately RMB639,212,000 and RMB160,122,000, respectively).

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. The Group settled the RMB4.8 billion panda bonds due in 2020, issued three-year medium-term notes of RMB2.2 billion and the Super & Short-term Commercial Paper of RMB1 billion, and obtained additional bank loans of RMB400 million. The Group's subsidiaries obtained policy loans for epidemic prevention of RMB641.5 million. As at 31 December 2020, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB10,993,603,000.

Capital expenditure

For the twelve months ended 31 December 2020, the Group's fixed asset and intangible asset investment expenditure was approximately RMB1,380,094,000, compared to approximately RMB1,864,478,000 for the previous year. During the Reporting Period, most of production bases established by the Group in various provinces and cities for local TCM integrated operation and concentrated TCM granules were gradually consolidated. Guangdong Yifang paid approximately RMB64,300,000 for acquiring clinical trial permission and development costs of Huashi Baidu Granules during the Period.

Financing capacity

As at 31 December 2020, capital commitments which the Group has entered but are outstanding and not provided for in the financial statements were approximately RMB1,127,450,000 (31 December 2019: approximately RMB1,247,850,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, acquisition of other intangible assets and investment payment. The Group is of the view that with available cash balances, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and its support from major financial institutions, it will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2020 (31 December 2019: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As of 31 December 2020, the Group had no Hong Kong Dollar bank borrowings and not entered into any forward foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As at 31 December 2020, the Group had a total of 16,286 (31 December 2019: 17,796) employees, including directors of the Company, of which 5,478 were sales staff, 7,390 were manufacturing staff, and 3,418 were engaged in R&D, administration and senior management. Remuneration packages mainly consisted of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the Reporting Period was approximately RMB1,768,909,000 (twelve months ended 31 December 2019: RMB1,718,432,000).

SUBSEQUENT EVENTS

Core Business Industry Policy Update

On 10 February 2021, the NMPA, National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued the Announcement. This document will bring impacts on the future development of the Group's core business of concentrated TCM granules.

Please refer to "Policy Updates" in the Management Analysis and Discussion section of this report for further details.

Marketing Authorisation for Huashi Baidu Granules

On 2 March 2021, NMPA has released working update, granting marketing authorisation for Huashi Baidu granules of Guangdong Yifang, a holding subsidiary of the Group, through a special approval procedure for emergency approval.

For details, please refer to the announcements of the Company dated 30 March 2020 and 3 March 2021.

Possible Privatisation of the Company

On 29 January 2021, the Company has made enquiries with Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), the controlling shareholder of the Company, and has been informed by Sinopharm Hongkong that it is currently exploring a proposal to privatise the Company (the "Possible Privatisation"), which if proceeded with, could result in a delisting of the Company from the Stock Exchange.

For details, please refer to the announcements of the Company dated 29 January 2021 and 1 March 2021.

FINAL DIVIDEND

Having considered the overall performance of the Group's operations in 2020, the Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK4.76 cents (approximately RMB4.34 cents) per share).

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2020, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Consolidated Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the financial position of the Company and the Group as at that date are set out in the consolidated financial statements on pages 80 to 200 of this report.

No interim dividend was paid during the year (six months ended 30 June 2019: HK5.72 cents (approximately RMB5.12 cents) per share).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK4.76 cents (approximately RMB4.34 cents) per share).

DIVIDEND POLICY

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

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

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

– capital commitment requirement;

– market environment and challenges;

– future development and investment opportunities; and

– any other factors that the Board deems appropriate.

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

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB1,663,255,000 (2019: RMB1,588,114,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements. The reserves available for distribution to shareholders by the Company as at 31 December 2020 are approximately RMB5,724 million (31 December 2019: approximately RMB4,339 million.

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

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

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 48 and the Consolidated Statement of Changes in Equity in the consolidated financial statements, respectively.

EQUITY-LINKED AGREEMENTS

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in notes 34 and 35 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2020 are set out in note 47 to the consolidated financial statements.

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

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

DIRECTORS

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

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

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

In accordance with Article 101 of the Articles of Association, Ms. LI Ru, Mr. YANG Binghua, Mr. KUI Kaipin and Mr. LI Weidong shall retire by rotation at the annual general meeting (the "AGM") and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report are set out on pages 68 to 73 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian entered into an employment agreement with the Company with effect from 22 June 2014 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month's prior notice.

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

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

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

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

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

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

Mr. KUI Kaipin renewed an appointment letter with the Company for a term of three years commencing from 30 May 2020.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

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

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

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

MANAGEMENT CONTRACTS

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

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB23,360,000.

DIRECTORS OF SUBSIDIARIES

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

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration and evaluation committee of the Company (the "Remuneration and Evaluation Committee") and the emoluments of the non-executive Directors and independent non-executive Directors are recommended by the Remuneration and Evaluation Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2020, the fee for the eligible independent non-executive Directors were fixed at HK$250,000 per annum.

PERMITTED INDEMNITY PROVISION

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

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

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company after the date of 2020 interim report is as follows:

– An emolument of Mr. WU Xian, an executive Director was RMB2,548,000 in 2020.

– An emolument of Mr. WANG Xiaochun, an executive Director was RMB2,360,000 in 2020.

– An emolument of Mr. YANG Wenming, an executive Director was RMB2,430,000 in 2020.

– Mr. YU Tze Shan Hailson, an independent non-executive Director resigned as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) with effect from September 2020.

– Mr. LI Weidong, an independent non-executive Director resigned as an independent director of Hainan Development Holdings Nanhai Co., Ltd. (formerly known as Avic Sanxin Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002163)) with effect from June 2020.

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

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

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

Note:

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

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2020, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2020, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

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

Notes:

1. The 1,634,705,642 shares are held by Sinopharm Hongkong, which is indirectly wholly owned by CNPGC.

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

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2020.

CONTINUING CONNECTED TRANSACTIONS

Deposit Service Agreement with Ping An Bank Co., Ltd. ("Ping An Bank")

On 15 January 2020, the Company and Ping An Bank entered into the Deposit Service Agreement, pursuant to which Ping An Bank agreed to provide deposit service to the Group commencing from 15 January 2020 for a term of three years ("Deposit Service Agreement").

In accordance with the Deposit Service Agreement, the annual caps for the deposit service during the validity term of the agreement (i.e from 15 January 2020 to 14 January 2023) shall be the maximum daily deposit balance of not higher than RMB600,000,000 (including any interest accrued thereon).

Ping An Bank is a subsidiary of Ping An, which is the holding company of Ping An Life. Ping An Life holds 604,296,222 shares, representing 12% of the issued shares of the Company. Ping An Bank is therefore a connected person of the Company as defined in the Listing Rules, and the transactions contemplated under the Deposit Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Board is of the view that entering into the Deposit Service Agreement is in the interest of the Group as it provides the Group with more options in respect of its funding management and the Group shall at its sole discretion select the most suitable service provider. In addition, in view of the close relationship between the Group and Ping An Group, it is expected that the application procedures for deposit service of Ping An Bank will be more efficient, convenient and flexible as compared to those of independent commercial banks, and the terms offered by Ping An Bank under the Deposit Service Agreement will be no less favorable than those offered by independent commercial banks to the Group.

For further details of the Deposit Service Agreement, please refer to the announcement of the Company dated 15 January 2020.

During the period from 15 January 2020 to 31 December 2020, the maximum daily deposit balance by the Group from Ping An Bank amounted to RMB598,100,000 which was below the cap for the maximum daily deposit balance amount of RMB600 million (including any interest accrued thereon) for the year ended 31 December 2020.

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 20 November 2019, the Company and CNPGC entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ending 31 December 2020, 2021 and 2022.

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

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

Pursuant to the New Master Supply Agreement, the value of the sales shall not exceed the annual caps of RMB1,200 million, RMB1,450 million and RMB1,700 million for each of the three financial years ending 31 December 2020, 2021 and 2022 respectively.

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

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

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

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

During the period from 1 January 2020 to 31 December 2020, the actual purchases of materials by the Group from CNPGC Group amounted to RMB38,816,000 (including value added tax) (RMB34,632,000 (excluding value added tax)) which was below the cap amount of RMB55,000,000 for the year ended 31 December 2020.

During the period from 1 January 2020 to 31 December 2020, the actual sales of products by the Group to CNPGC Group amounted to RMB945,001,000 (including value added tax) (RMB840,246,000 (excluding value added tax)) which was below the cap amount of RMB1,200,000,000 for the year ended 31 December 2020.

Financial Services Framework Agreement with Sinopharm Group Finance

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

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

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

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

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

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

During the period from 1 January 2020 to 31 December 2020, the maximum daily deposit balance by the Group from Sinopharm Group Finance amounted to RMB593,043,000 which was below the cap for the maximum daily deposit balance amount of RMB600 million for the year ended 31 December 2020. As the Group did not utilise the loan services of Sinopharm Group Finance and did not accrue the service fees payable to Sinopharm Group Finance for the Other Financial Services.

Research and Development Agreements with SIPI and SPERC

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

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

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

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

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

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

During the period from 1 January 2020 to 31 December 2020, there is no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2020 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

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

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

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

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. During 2020, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 46 of the audited consolidated financial statements of this report. Such related party transactions include the transactions as disclosed in the "CONTINUING CONNECTED TRANSACTIONS" of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditors

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

(i) have not been approved by the Board;

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

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

(iv) have exceeded the annual cap.

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

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

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

DEBENTURES ISSUED

For the year ended 31 December 2020, no debenture is issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 5.7% and 14.0% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 5.7% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and the five largest suppliers accounted for around 2.1% and 8.2% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.7% of the Group's total purchases during the year.

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

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in note 37 to the financial statements.

AUDITORS

Deloitte Touche Tohmatsu shall retire as auditor upon the expiration of its current term of office.

A resolution for the re-appointment or appointment of auditor of the Company for the financial year ending 31 December 2021 is to be proposed at the forthcoming annual general meeting. If it is intended at the forthcoming annual general meeting to appoint an auditor other than the retiring auditor or to provide expressly that the retiring auditor shall not be re-appointed, an announcement in relation to the proposed change of auditor will be made by the Company as soon as practicable.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2020 have been reviewed by the audit committee of the Company (the "Audit Committee"). Information relating to the terms of reference of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 50 to 67 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 50 to 67 of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

By Order of the Board

WU Xian
Chairman

Hong Kong, 30 March 2021

Corporate Governance Report

The Board believes that corporate governance is essential to safeguard the interests of the Shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. Save as disclosed in this report, the Company has applied the corporate governance practices and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2020.

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

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

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

Executive Directors:

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

Non-executive Directors:
Mr. YANG Shanhua
Ms. LI Ru
Mr. YANG Binghua
Mr. WANG Kan
Mr. KUI Kaipin

Independent Non-executive Directors:
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

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

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

The Board schedules four meetings a year at approximately quarterly intervals. Other Board meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the Directors within a reasonable time before the meetings. Drafts and final versions of the Board minutes are provided to the Directors for their comments and record within a reasonable time. Minutes of the Board meetings are open for inspection by Directors.

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

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results;

– declaration and recommendation of the payment of dividend;

– appointment of new directors; and

– appointment and dismissal of senior management of the Company.

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

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

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2020 is set out below:

Remuneration Band (RMB'000)	Number of persons
1,501-1,800	4
1,801-2,300	2

For the year ended 31 December 2020, the Company had convened four regular Board meetings, four other Board meetings, the 2020 annual general meeting (the "2020 AGM") and one extraordinary general meeting ("EGM"). The following table shows the details of Directors' attendance:

	Attendance/Number of Meetings			
Directors	**Regular Board Meetings**	**Other Board Meetings**	**2020 AGM**	**EGM**
Executive Directors:				
Mr. WU Xian *(Chairman)*	4/4	4/4	1/1	1/1
Mr. WANG Xiaochun *(Managing Director)*	4/4	4/4	1/1	1/1
Mr. YANG Wenming	3/4	4/4	1/1	0/1
Non-executive Directors:				
Mr. YANG Shanhua	4/4	3/4	1/1	0/1
Ms. LI Ru	4/4	3/4	1/1	0/1
Mr. YANG Binghua	4/4	3/4	1/1	0/1
Mr. WANG Kan	4/4	3/4	0/1	0/1
Mr. KUI Kaipin	4/4	3/4	0/1	0/1
Independent Non-executive Directors:				
Mr. XIE Rong	4/4	3/4	1/1	1/1
Mr. YU Tze Shan Hailson	4/4	3/4	1/1	0/1
Mr. QIN Ling	4/4	3/4	1/1	0/1
Mr. LI Weidong	4/4	3/4	1/1	0/1

Chairman and Managing Director

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

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

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

Appointment and Re-election of Directors

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

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

Continuous Professional Development of Directors

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

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

The training attended by the Directors during the Reporting Period is summarized as follows:

Directors	**Training Type**
Executive Directors:	
Mr. WU Xian *(Chairman)*	A
Mr. WANG Xiaochun *(Managing Director)*	A
Mr. YANG Wenming	A
Non-executive Directors:	
Mr. YANG Shanhua	A
Ms. LI Ru	A
Mr. YANG Binghua	A
Mr. WANG Kan	A
Mr. KUI Kaipin	A
Independent Non-executive Directors:	
Mr. XIE Rong	A
Mr. YU Tze Shan Hailson	A
Mr. QIN Lin	A
Mr. LI Weidong	A

A: Attending training related to update on ESG report

Nomination Committee

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

As at the date of this report, the Nomination Committee comprises of three executive Directors and four independent non-executive Directors. During the year, one Nomination Committee meeting were held and the following topics were reviewed and discussed: 1) the structure of the Board and its committees and other executives, and the diversity of the composition; 2) the independence of the independent non-executive directors; and 3) the time devoted by the non-executive directors to perform their duties to the Company. The individual attendance of each member is set out below:

Members of the Nomination Committee	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. WU Xian *(Chairman)*	1/1
Mr. WANG Xiaochun	1/1
Mr. YANG Wenming	1/1
Independent Non-executive Directors:	
Mr. XIE Rong	1/1
Mr. YU Tze Shan Hailson	1/1
Mr. QIN Ling	1/1
Mr. LI Weidong	1/1

Nomination Policy

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

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

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

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

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

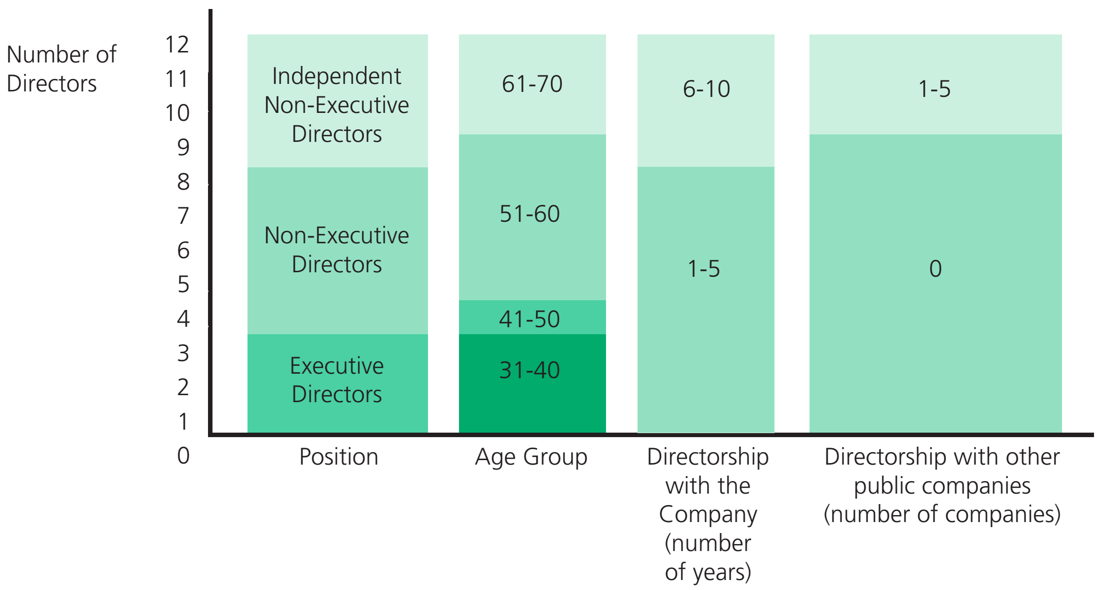
Board Diversity Policy

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

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

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

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



Audit Committee

As at the date of this report, the Audit Committee comprises of one non-executive Director and four independent non-executive Directors, which complies with the requirements under Rule 3.21 of the Listing Rules. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

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

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

During the year, four Audit Committee meetings were held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Audit Committee	**Attendance/ Number of Meetings**
Non-executive Director:	
Mr. YANG Shanhua	4/4
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	4/4
Mr. YU Tze Shan Hailson	4/4
Mr. QIN Ling	4/4
Mr. LI Weidong	4/4

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2019 and the interim results and the interim report of the Group for the year 2020, as well as the effectiveness of the internal control and risk management system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration and Evaluation Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

– encouraging future employee contributions to achieve overall corporate goals.

During the year, two Remuneration and Evaluation Committee meetings were held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Remuneration and Evaluation Committee	**Attendance/ Number of Meetings**
Non-Executive Director:	
Mr. YANG Shanhua	2/2
Independent Non-executive Directors:	
Mr. XIE Rong	2/2
Mr. YU Tze Shan Hailson	2/2
Mr. QIN Ling *(Chairman)*	2/2
Mr. LI Weidong	2/2

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

Strategic Committee

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

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

During the year, no Strategic Committee meetings were held.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

For the year ended 31 December 2020, the Group has been complying with applicable laws and regulations applicable to the Group, including "Pharmaceutical Administration Law of the People's Republic of China" and its implementation regulations, "Regulations of the People's Republic of China on Traditional Chinese Medicine", "Regulations on Protection of Traditional Chinese Medicines", "Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers", "Law of the People's Republic of China on Traditional Chinese Medicine", "Trademark Law of the People's Republic of China", "Patent Law of the People's Republic of China" and its rules for implementation, "Environmental Protection Law of the People's Republic of China" and "Labor Contract Law of the People's Republic of China". The Group attaches great importance to product safety and conducts multiple quality inspection in the production process to ensure the compliance with the applicable quality regulations promulgated by the relevant authorities. The Group's production subsidiaries have obtained relevant drug production and operation permission.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

ESG REPORT

The Group has commenced preparation of the Company's ESG Report in accordance with the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange, which is planned to release in or before May 2021.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

FINANCIAL REPORTING

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

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2020, the Directors have:

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

– selected and applied consistently appropriate accounting policies;

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

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 74 to 79 of this report.

AUDITORS' REMUNERATION

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

Services rendered	**Fee paid/ payable in 2020 RMB'000**
Audit service	5,780
Non-audit service *(Note)*	2,005
Total	7,785

Note: Non-audit service mainly comprised review of the interim report, taxation advice and audited report after acquisition of pharmaceutical companies of the Group during the year.

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji and Ms. LEUNG Suet Lun (a representative of an external service provider) served as the joint company secretaries of the Company during the Reporting Period. The main contact person of the Company is Mr. ZHAO. Both Ms. LEUNG and Mr. ZHAO confirmed that they had taken not less than 15 hours relevant professional training complied with Rule 3.29 of the Listing Rules during the Reporting Period.

INSIDE INFORMATION DISCLOSURE POLICY

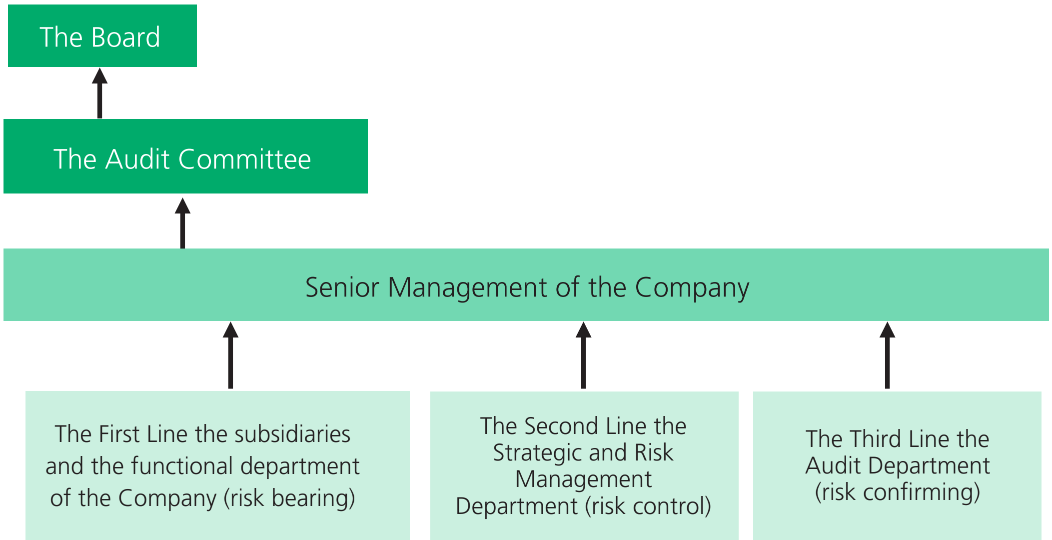
In 2013, the Board adopted an inside information disclosure policy in relation to the procedures and internal controls for handling and disseminating inside information. The Group's inside information disclosure policy sets out guidelines and procedures for directors, senior management and related personnel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

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has established a risk management and internal control system in accordance with the requirements of Code C.2 of the Code and continues to monitor and review, at least on an annual basis, the effectiveness of its operation in order to ensure that the Group has adequate resources, staff qualifications and experience in accounting, internal audit and financial reporting functions, and that the training programmes received by staff and the related budget are adequate. Such system is designed to mitigate the inherent risks faced by the Group in its business to an acceptable level, rather than eliminate all risks. Therefore, this system only provides reasonable, not absolute, assurance against major false statements or financial losses in financial data.

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

For risk management, the Company's risk management framework takes the following "three lines" model as a guide.



During the Reporting Period, the Company further demonstrated the role of "three lines", carried out risk management works of each business procedure, and formulated the Reporting System for Significant Operational Risk Events of China Traditional Chinese Medicine Holdings Co. Limited, using the "Risk Assessment Analysis Table" and the "Risk Assessment Coordinate Chart" to conduct qualitative and quantitative analyses in two dimensions, namely the possibility of occurrence and the degree of impact, to prudently, seriously and scientifically identify the significant risks faced by the Group. Effective control measures were formulated for each of the significant risks: 1) deepen policy research and evaluation, strengthen communication with government and proactively respond to changes in policy; 2) optimize the corporate control model, improve the modernized corporate system and promote the modernization of corporate governance; 3) strengthen investment and merger management, optimize resource allocation and improve corporate efficiency; 4) fully investigate the internal and external environment of the upstream raw material market, reduce procurement costs and prevent supply chain shortage risks; 5) strengthen the construction of quality control system, initiate internal quality audits, and follow up on the implementation of rectification of quality problems in production enterprises in a timely manner; and 6) establish and improve the responsibility and management system for safety production, and accelerate the construction of the dual system of risk classification and control and hidden danger investigation and management.

During the year, the Company focused on special tasks to prevent and resolve risks and improve the Company's efficiency: 1) conducted special audits on the procurement of Chinese medicinal herbs (decoction pieces) to strengthen internal control supervision of the procurement of Chinese medicinal herbs. The Company conducted special audits on the entire procurement process management of four companies and made 17 audit opinions, 14 of which were rectified, with a completion rate of 82.36%; 2) organized self-inspection of associate companies and timely disposal of inefficient asset investment; and 3) paid great attention to enterprises with long-term losses to prevent the continued loss of state-owned assets.

For internal controls, during the Reporting Period, the Company continued to strengthen the implementation of internal controls, gradually improved the Group's system-wide internal control mechanism and promoted the construction of internal control system. The Company encouraged its subsidiaries to prepare their internal control manuals based on the Internal Control Manual of Chinese Medicine Holdings Co. Limited to compile a comprehensive review of the internal and external environment of their operations. The Company also strived to improve the system and strengthen the regular management of the system by creating 31 new management systems and amending 30 existing systems during the Reporting Period. During the year, the Company also continued to promote the construction of internal audit and rectification mechanism. 57 audit projects were carried out, involving 45 units, with the total audited assets amounting to RMB39,266 million, 245 audit issues were identified, with the rectification rate of 97.53%, resulting in a good status audit and rectification. At the same time, the Company's functional departments worked together to organize supervision and inspection, and to supervise the rectification and continuous improvement of violations. The quality control department conducted 35 daily supervision inspections and quality internal audits on 34 subsidiaries, and 488 potential problems were found, with a 100% rectification rate; the production, safety and environmental protection department conducted 21 safety and environmental protection supervision inspections on 20 subsidiaries, and 189 potential problems were found, with a 96.8% rectification rate; the finance center conducted random inspections on the whole process control of accounts receivable of nine key subsidiaries, and issued risk reminder letters for rectification with obvious effect of cleaning up.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

(e) general meetings; and

(f) meetings with investors and analysts.

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

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

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

ARTICLES OF ASSOCIATION

During the year, there is no change in the Articles of Association.

SHAREHOLDERS' RIGHTS

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

CONVENING OF GENERAL MEETING ON REQUEST

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

PUTTING FORWARD PROPOSALS AT ANNUAL GENERAL MEETING

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

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

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

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 60, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 30 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He was the director, general manager and deputy secretary to the Party Committee of China National Traditional Chinese Medicine Co., Ltd. (formerly named as China National Corp. of Traditional & Herbal Medicine) from August 2010 to December 2017. He was re-designated from deputy secretary of the Party Committee to secretary of the Party Committee since January 2018. He has been the executive director and general manager of China National Traditional Chinese Medicine Co., Ltd. since January 2019. He is currently the deputy secretary of the Party Committee of the Company.

Mr. WANG Xiaochun, aged 53, was appointed to the Board on 23 October 2013. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989. Mr. WANG has been the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. He has been a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He was appointed as a vice president of the Company in October 2013. He is currently the president of the Company.

Mr. YANG Wenming, aged 57, was appointed to the Board on 24 December 2018. Mr. YANG graduated from Zhejiang University majoring in Biological and Medical Instruments and obtained a bachelor degree of Engineering in 1985. Mr. YANG Wenming also has the senior engineer professional qualification. He was previously a staff member of the quality standard department, a senior staff member, a principal staff member, the deputy department head of the external cooperation department, the assistant of general manager and the department head of the external cooperation department and the assistant of general manager of China National Medical Equipment Industry Corporation from August 1985 to March 1999 and the assistant of the department head of the Medical Equipment Administration Department and the deputy director of the Medical Equipment Products Examination and Registration Centre of the State Medicine Administrative Bureau of China from January 1997 to January 1998. He was previously an office manager, manager of the information department, manager of the discipline inspection and supervision office, manager of the audit department, deputy secretary of discipline inspection committee, vice president of labour union and the staff supervisor of China National Pharmaceutical Group Corporation (中國醫藥集團總公司) (currently known as China National Pharmaceutical Group Co., Ltd., "CNPGC"), and deputy general manager, deputy secretary of the Party Committee and secretary of discipline inspection committee, president of labour union of China National Pharmaceutical Industry Company Limited from March 1999 to April 2017; the deputy secretary of the Party Committee, secretary of discipline inspection committee and president of labour union of Shanghai Shyndec Pharmaceutical Co., Ltd. from November 2016 to December 2018. He is currently the secretary of the Party Committee and vice president of the Company.

NON-EXECUTIVE DIRECTORS

Mr. YANG Shanhua, aged 54, was appointed to the Board on 28 March 2018. Mr. YANG graduated from Southwestern University of Finance and Economics in 1993, with a master degree in accounting major and he obtained a doctoral degree in accounting from Chinese Academy of Fiscal Science in 2005. He is a senior accountant and a qualified Certified Public Accountant of Chinese Institute of Certified Public Accountants. Mr. YANG was chief financial officer of Beijing Oriental Yuhong Waterproof Technology Co., Ltd., chief accountant in China National Biotec Group Company Limited, and deputy general manager in CNPGC successively, from June 2000 to May 2017. He is currently the chief accountant of CNPGC.

Ms. LI Ru, aged 41, was appointed to the Board on 18 February 2019. Ms. LI graduated from pharmaceutical preparations at Shenyang Pharmaceutical University in 2001. She was product manager, regional sales manager and divisional sales manager of the narcotics department at China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600511) successively from September 2001 to January 2010, and market manager of Nycomed Pharma AS (奈科明製藥有限公司) from January 2010 to January 2012. From January 2012 until the present, she has acted as deputy director and director of the risk and operation management department and director of the legal and risk management department of CNPGC successively. Ms. LI is currently the director of the legal and risk management department of CNPGC.

Mr. YANG Binghua, aged 40, was appointed to the Board on 24 December 2018. Mr. YANG obtained a bachelor degree in Politics and Administration of Public Administration from China Youth University for Political Sciences in 2004 and obtained a master degree in Public Administration from School of Government of Peking University in 2011. He was previously a staff member, a senior staff member and a principal staff member of the information research office of the State Council State-owned Assets Supervision and Administration Commission ("SASAC") Office from July 2004 to December 2013; person-incharge of the basic training programme of Daqing Oilfield production plant No.2 from April 2010 to March 2011; person-in-charge of the basic training programme of the governmental and enterprises customers division of China Telecom from August 2012 to December 2013; the deputy department head of the second secretarial department, a deputy director of the department party committee office, the deputy department head of the promotional department of the department party committee and the department head of the promotional department of the department party committee of the State Council SASAC Office from December 2013 to March 2017. In which, he served as a staff member of the management enhancement group office of asset committee authorities from July 2012 to August 2014. He was previously a deputy director of department of party-people relationship and a deputy director of department of party-people relationship (incharge of the department) of CNPGC from March 2017 to May 2018. He is currently a principal staff of department of party-masses relationship of CNPGC.

Mr. WANG Kan, aged 36, was appointed to the Board on 24 December 2018. Mr. WANG obtained a bachelor degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center in 2007, a master degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center and double bachelor degree of Economics from China Center for Economic Research of Peking University in 2009. Mr. WANG was a staff member of planning development and industrial management department of China National Pharmaceutical Industry Company Limited from August 2009 to May 2010; a staff member of the investment management department and securities department of China National Biotech Group Company Limited from May 2010 to November 2014; and a senior business executive and assistant of manager of the investment management department of CNPGC from November 2014 to January 2018. He has also been a director of Suzhou Capsugel Co., Ltd. in March 2018. He is currently the deputy manager of the investment management department of CNPGC.

Mr. KUI Kaipin, aged 35, was appointed to the Board on 30 May 2018. Mr. KUI graduated from the School of International Liberal Studies of Waseda University with a bachelor's degree in International Liberal Studies in 2008. He obtained a master's degree in International Relation from the Graduate School of Asia-Pacific Studies of Waseda University in 2010. Mr. KUI joined Ping An in 2012 and has served various positions in the Ping An Group. He is currently a managing director of the private equity department of China Ping An Insurance Overseas (Holdings) Limited responsible for overseas private equity investments and strategic investments. He is also a director of Ping An Japan Investment Co., Ltd. managing Ping An Group's investments in Japan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XIE Rong, aged 68, was appointed to the Board on 5 February 2013. Mr. XIE obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. Mr. XIE has over 50 years of working experience. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002 respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) from April 2003 to May 2018 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange), Shanghai Baosight Software Co., Ltd. (a company listed on the Shanghai Stock Exchange) and China Everbright Bank Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014, from August 2007 to September 2014, from April 2010 to April 2016 and from January 2013 to January 2019 respectively. Mr. XIE was a professor of the Shanghai National Accounting Institute from October 2002 to November 2017 and was also the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012. Mr. XIE has been an independent non-executive director of each of Shenwan Hongyuan Group Co., Ltd. (a company listed on Stock Exchange and the Shenzhen Stock Exchange), Shanghai Bairun Investment Holding Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange) since January 2015, June 2015 and June 2018, respectively.

Mr. YU Tze Shan Hailson, aged 64, was appointed to the Board on 25 November 2013. Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a chartered engineer and a fellow of the Institution of Engineering and Technology, Hong Kong Institution of Engineers, the Institute of Arbitrators of the United Kingdom and Hong Kong Institute of Arbitrators.

Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. Since 1998, Mr. YU has been a deputy managing director of Versitech Limited (港大科橋有限公司) and deputy director of Technology Transfer Office of the University of Hong Kong, a technology transfer and commercial company of the University of Hong Kong which mainly commercializes and transfers achievements in scientific research to the business sectors. In 2020, Mr Yu also acts as the chief operating officer of HKU Innovation Holdings Limited, responsible for the operational matters of all the R&D Centres under the company. Mr. Yu had been an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) from September 2014 to September 2020. Mr. YU also serves as an independent non-executive director of China NT Pharma Group Company Limited since June 2017.

Mr. QIN Ling, aged 62, was appointed to the Board on 18 February 2019. He graduated from the Basic Medical and Life Sciences in Physical Education Faculty of the Beijing Sport University in 1982 and received his PhD in Exercise Science from the German Sports University, Cologne, Germany in 1992. He completed a post-doctoral research relating to osteoporosis in the AO Research Institute in 1992. He was the laboratory director of the Department of Trauma & Reconstructive Surgery, School of Medicine, Free University of Berlin, Germany from July 1993 to August 1994, and director of the research laboratory in the Department of Orthopaedics & Traumatology, director of the Bone Quality and Health Centre and director of Innovative Orthopaedic Biomaterial and Drug Translational Research Laboratory, Li Ka Shing Institute of Health Sciences, Faculty of Medicine, the Chinese University of Hong Kong from September 1994 until the present. Mr. QIN is currently a professor of Orthopaedics and director of laboratory in the Faculty of Medicine and doctorate and post-doctorate supervisor at the Chinese University of Hong Kong.

Mr. LI Weidong, aged 53, was appointed to the Board on 18 February 2019. Mr. LI graduated from Nanjing University with bachelor's degrees in science and law in 1992 and obtained a doctor of philosophy in law from the City University of Hong Kong in 2004. Mr. LI acted as a professional lawyer of Nanjing Zhongshan Law firm from September 1992 to January 1994 and as a professional lawyer of Jiangsu Jingwei Law Firm from February 1994 to April 1997. He is currently a director of Haipei Law Firm (Shenzhen and Hong Kong), an independent non-executive director of Ocean Line Port Development Limited (a company listed on the Stock Exchange, stock code: 8502), and an independent director of Lufax Holding Ltd.(a company listed on the New York Stock Exchange, stock code: LU).

SENIOR MANAGEMNET

Mr. ZHANG Qingsheng, aged 60, was appointed as a vice president of the Company in July 2013. Mr. ZHANG graduated from Traditional Chinese Medicine in Harbin University of Commerce (formerly known as Heilongjiang College of Commerce) in 1982. Mr. ZHANG has the senior economist professional qualification. He has over 30 years of experience in the Chinese medicine industry. Mr. ZHANG has served as several positions including director, vice president, deputy secretary of the Party Committee, chairman of the labor union and secretary of the board of directors of China National Corp. of Traditional & Herbal Medicines (currently known as China National Traditional Chinese Medicine Co., Ltd.) from 1982 to 2013.

Mr. LAN Qingshan, aged 56, was appointed as a vice president on 24 December 2018. Mr. LAN was graduated from Jiangxi University of Traditional Chinese Medicine with a bachelor degree of Traditional Chinese Medicine in 1985 and a master degree of Traditional Chinese Medicine in 1990, and completed the EMBA programme from Peking University in 2000. Mr. LAN has the professional qualifications of university teacher certification, practicing physician, practicing pharmacist and chief pharmacist. He was a teaching assistant, house physician and lecturer of Jiangxi University of Traditional Chinese Medicine from July 1985 to September 1992. He was previously a sales staff, provincial manager, regional manager, sales manager of Jiangzhong (Pharmaceutical) Group Co., Ltd., the deputy general manager of Jiangxi Dongfeng Pharmaceutical Co., Ltd., the general manager of Jiangzhong Pharmaceutical Trading Co., Ltd., the deputy general manager of Jiangzhong Pharmaceutical Co., Ltd., the general manager of Jiangxi Shangao Pharmaceutical Co., Ltd., the general manager of Jiangxi Hengseng Food Company, person-incharge of the new products research and development department of Jiangzhong Group and the general manager of Jiang Zhong Xiao Zhou Medicine Trading Limited Company from October 1992 to December 2009. In which, he was the Deputy County Chief of Duchang County People's Government of Jiangxi in a temporary basis from April to December 2009. He was the deputy general manager and a senior staff of Medicinal Resources Industry Centre and the president of the Chinese Medicine Research Institute of China National Traditional Chinese Medicine Co., Ltd. from January 2010 to December 2018.

Mr. ZHAO Dongji, aged 53, has been appointed as a vice president, joint company secretary and chief legal advisor since 5 June 2017, 21 July 2017 and 14 October 2019 respectively. Mr. ZHAO was a non-executive director and an executive director of the Company from February 2013 to June 2017 and from June 2017 to December 2018 respectively. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 30 years of related working experience, including over 20 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager, the chief investment officer and the deputy general manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) from 2011 to July 2017.

Mr. WANG Xingkai, aged 41, was appointed as a chief financial officer on 24 December 2018. Mr. WANG was graduated from Dongbei University of Finance and Economics with a bachelor degree in Accounting in 2002. Mr. WANG was an auditor of Beijing Zhonghui Accounting Firm from July 2002 to October 2003; a senior auditor in SHINEWING CPA from October 2003 to May 2007; an accounting supervisor, manager assistant, deputy manager and manager of the finance department of China National Pharmaceutical Foreign Trade Corporation from May 2007 to June 2012. He was previously the financial controller and deputy general manager of China Medical Equipment Co., Ltd. from June 2012 to October 2015. He was the financial controller of China Medical Equipment Co., Ltd. and the financial controller of China National Scientific Instruments and Materials Co., Ltd. from November 2015 to December 2018.

Mr. CHENG Xueren, aged 57, was appointed as a vice president on 24 December 2018. Mr. CHENG was graduated from Anhui Institute of Traditional Chinese Medicine (currently known as Anhui University of Traditional Chinese Medicine) with a bachelor degree in Traditional Chinese Medicine in 1985, and obtained a master degree from Guangzhou University of Chinese Medicine in Basic Theory of Integrated Chinese and Western Medicine in 1992. Mr. CHENG has the professional qualifications of chief pharmacist and physician. He was a physician of Anhui Chuzhou People's Hospital from July 1985 to August 1989; a doctor of Guangdong Second Hospital of Traditional Chinese Medicine from July 1992 to March 1993; a deputy manager of production, the deputy manager of sale and general manager of Guangdong Yifang Pharmaceutical Co., Ltd. from March 1993 to November 2017. In which, he was the vice director of Guangdong Institute of Traditional Chinese Medicine from March 1993 to May 2015. He is currently the general manager and secretary of the Party Committee of Guangdong Yifang Pharmaceutical Co., Ltd. and the secretary of Party General Branch.

Mr. HUANG Zhangxin, aged 53, was appointed as a vice president in 15 October 2019. Mr. HUANG was graduated from Shanghai Medical University (currently knowns as Fudan University Shanghai Medical College) majoring in Medicinal Chemistry in Department of Pharmacy in July 1991 and obtained a master degree in Economics and Management from Party School of the Guangdong Provincial Committee of CPC in July 2001. Mr. HUANG has professional qualifications of pharmaceutical engineer and senior pharmaceutical R&D engineer. Mr. HUANG served as officer in Rongqi Government in Shunde, Foshan, Guangdong from August 1991 to January 1996; deputy general manager in Shunde Nanfang Bio-Pharmaceutical Co., Ltd. (順德南方生物製藥有限公司) from January 1996 to January 2001; deputy general manager of the Company's subsidiary, Guangdong Medi-World Pharmaceutical Co., Ltd., and director of R&D, assistant to general manager and deputy general manager of Winteam Pharmaceutical Group Limited from January 2001 to October 2013; and deputy secretary of the Party Committee, vice president, general engineer and director of production, safety and environmental protection department of the Company from October 2013 to September 2019.

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 80 to 200, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment on goodwill and other intangible assets	
We identified the annual impairment assessment of goodwill and other intangible assets allocated to the cash-generating units ("CGUs") including, Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang Group"), Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. ("Dezhong"), Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical"), Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. ("Jingfang") and Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") as a key audit matter due to significant judgements exercised and assumptions used by the management in the impairment assessment. As disclosed in notes 4 and 21 to the consolidated financial statements, in determining whether goodwill and other intangible assets are impaired requires an estimation of the recoverable amounts (i.e. the value in use) of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the corresponding CGUs, with key assumptions including the growth rates, budgeted sales and gross profit margin, and discount rates. The carrying amounts of goodwill and other intangible assets allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate of RMB3,329,809,000 and RMB4,117,940,000, respectively, at 31 December 2020. The management has determined that there were no impairment identified on those goodwill and other intangible assets.	Our procedures in relation to evaluating the appropriateness of impairment assessment of goodwill and other intangible assets allocated to the CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang included: • Understanding key controls on how the management performed the impairment assessment; • Evaluating the valuation methodology, the mathematical accuracy of the value in use calculations of the CGUs prepared by the management; • Assessing the independence, objectivity, qualifications and expertise of the external valuer engaged by the management. • With the assistance of our internal valuation specialists, assessing the reasonableness of the key assumptions used by the management in determining the value in use of the CGUs including growth rates, budgeted sales, gross profit margin and discount rate; • Evaluating the historical accuracy of the cash flow forecasts by comparing the historical cash flow forecasts with the actual performance of the CGUs; and • Performing sensitivity analysis on the significant assumptions including discount rates and growth rates to evaluate the potential impacts on the recoverable amounts of the CGUs.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of significant judgments and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As disclosed in note 24, at 31 December 2020, the Group's net trade receivables amounting to RMB 4,552,737,000, which represented approximately 13.8% of total assets of the Group. As disclosed in note 43 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit-impaired are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 43 to the consolidated financial statements, the Group's lifetime ECL on trade receivables as at 31 December 2020 amounted to RMB 88,138,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2020, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2020, including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix with reference to historical default rates and forward-looking information; and • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 4, 24 and 43 to the consolidated financial statements.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	NOTES	**2020** **RMB'000**	2019 RMB'000
Revenue	*5*	**14,806,168**	14,320,949
Cost of sales		**(5,680,093)**	(5,745,161)
Gross profit		**9,126,075**	8,575,788
Other income	*7*	**254,556**	225,368
Other gains and losses	*8*	**8,212**	(63,093)
Impairment losses under expected credit loss model, net of reversal	*9*	**(53,725)**	(18,009)
Selling and distribution expenses		**(5,586,737)**	(5,109,153)
Administrative expenses		**(707,278)**	(686,189)
Research and development expenses		**(550,472)**	(463,996)
Profit from operations		**2,490,631**	2,460,716
Finance costs	*10*	**(244,666)**	(301,047)
Share of results of associates	*22*	**(15,874)**	(5,051)
Profit before tax		**2,230,091**	2,154,618
Income tax expense	*11*	**(369,447)**	(381,321)
Profit for the year	*12*	**1,860,644**	1,773,297
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
– Fair value loss on debt instruments measured at fair value through other comprehensive income		**(3,266)**	(16,609)
– Revised of impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		**405**	1,575
– Income tax relating to items that may be reclassified subsequently		**(380)**	2,148
Other comprehensive expense for the year, net of income tax		**(3,241)**	(12,886)
Total comprehensive income for the year		**1,857,403**	1,760,411
Profit for the year attributable to:			
Owners of the Company		**1,663,255**	1,588,114
Non-controlling interests		**197,389**	185,183
		1,860,644	1,773,297
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,660,000**	1,576,413
Non-controlling interests		**197,403**	183,998
		1,857,403	1,760,411
EARNINGS PER SHARE			
Basic (RMB cents)	*16*	**33.03**	31.54

Consolidated Statement of Financial Position

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	18	**6,226,767**	5,370,318
Right-of-use assets	19	**1,242,788**	1,231,228
Investment properties	18	**299,191**	72,859
Goodwill	17	**3,521,963**	3,538,800
Other intangible assets	20	**6,365,640**	6,456,090
Interests in associates	22	**22,161**	24,359
Deposits and prepayments	23	**108,027**	304,810
Deferred tax assets	33	**170,307**	151,637
		17,956,844	17,150,101
CURRENT ASSETS			
Inventories	26	**4,908,485**	4,691,753
Trade and other receivables	24	**5,033,004**	3,457,951
Financial assets at fair value through profit or loss ("FVTPL")	27	**–**	72,800
Debt instruments at fair value through other comprehensive income ("FVTOCI")	28	**1,383,732**	1,111,319
Time deposits	29(a)	**203,000**	–
Pledged bank deposits	29(b)	**163,078**	376,168
Bank balances and cash	29(c)	**3,440,240**	5,613,633
		15,131,539	15,323,624
CURRENT LIABILITIES			
Trade and other payables	30	**4,412,628**	5,279,732
Lease liabilities	39	**13,994**	12,013
Contract liabilities	31	**292,331**	223,106
Bank and other borrowings	34	**1,658,026**	639,212
Unsecured notes – due within one year	35	**1,006,793**	4,868,724
Tax liabilities		**150,828**	124,225
		7,534,600	11,147,012
NET CURRENT ASSETS		**7,596,939**	4,176,612
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,553,783**	21,326,713

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Deferred government grants	*32*	**405,092**	265,181
Deferred tax liabilities	*33*	**1,710,376**	1,748,580
Unsecured notes – due after one year	*35*	**2,230,523**	–
Bank and other borrowings	*34*	**221,410**	160,122
Lease liabilities	*39*	**89,961**	102,105
		4,657,362	2,275,988
NET ASSETS		**20,896,421**	19,050,725
CAPITAL AND RESERVES			
Share capital	*36*	**11,982,474**	11,982,474
Reserves		**6,081,612**	4,640,941
Equity attributable to owners of the Company		**18,064,086**	16,623,415
Non-controlling interests		**2,832,335**	2,427,310
TOTAL EQUITY		**20,896,421**	19,050,725

The consolidated financial statements on pages 80 to 200 were approved and authorised for issue by the Board of Directors on 30 March 2021 and are signed on its behalf by:

WU Xian
Executive Director

WANG Xiaochun
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity owners of the Company								
	Share capital RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (note a)	FVTOCI reserve RMB'000	Other reserves RMB'000	Accumulated profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019	11,982,474	(165,183)	528,437	(607)	(47,882)	3,254,194	15,551,433	1,959,138	17,510,571
Profit for the year	–	–	–	–	–	1,588,114	1,588,114	185,183	1,773,297
Other comprehensive expense for the year	–	–	–	(11,701)	–	–	(11,701)	(1,185)	(12,886)
Total comprehensive income for the year	–	–	–	(11,701)	–	1,588,114	1,576,413	183,998	1,760,411
Acquisition of subsidiaries	–	–	–	–	–	–	–	53,182	53,182
Dividend distributed to NCI of a subsidiary	–	–	–	–	–	–	–	(76,110)	(76,110)
Dividends recognised as distribution	–	–	–	–	–	(502,506)	(502,506)	–	(502,506)
Capital injection from non-controlling equity holders of subsidiaries	–	–	–	–	–	–	–	321,879	321,879
Acquisition of non-controlling interest	–	–	–	–	(1,925)	–	(1,925)	(14,777)	(16,702)
Transfer to statutory surplus reserve	–	–	978	–	–	(978)	–	–	–
At 31 December 2019	11,982,474	(165,183)	529,415	(12,308)	(49,807)	4,338,824	16,623,415	2,427,310	19,050,725
Profit for the year	–	–	–	–	–	1,663,255	1,663,255	197,389	1,860,644
Other comprehensive expense for the year	–	–	–	(3,255)	–	–	(3,255)	14	(3,241)
Total comprehensive income for the year	–	–	–	(3,255)	–	1,663,255	1,660,000	197,403	1,857,403
Acquisitions of subsidiaries (note 38)	–	–	–	–	–	–	–	133,290	133,290
Dividend distributed to NCI of a subsidiary	–	–	–	–	–	–	–	(60,661)	(60,661)
Dividends recognised as distribution	–	–	–	–	–	(219,329)	(219,329)	–	(219,329)
Capital injection from non-controlling equity holders of subsidiaries	–	–	–	–	–	–	–	134,993	134,993
Transfer to statutory surplus reserve	–	–	58,948	–	–	(58,948)	–	–	–
At 31 December 2020	11,982,474	(165,183)	588,363	(15,563)	(49,807)	5,723,802	18,064,086	2,832,335	20,896,421

Note:

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Operating activities		
Profit before tax	**2,230,091**	2,154,618
Adjustments for:		
Depreciation and amortisation	**684,079**	590,826
Amortisation of deferred government grants	**(45,343)**	(31,151)
Impairment losses recognised in respect of		
– goodwill	**16,837**	30,184
– other intangible assets	**–**	1,779
– trade receivables	**40,458**	17,424
– other receivables	**12,862**	182
– debt instruments at FVTOCI	**405**	403
Write down of inventories	**15,333**	38,861
Finance costs	**244,666**	301,047
Covid-19-related rent concessions	**(781)**	–
Interest income	**(47,600)**	(51,251)
(Gain) loss on disposal of property, plant and equipment	**(318)**	7,386
Gain on disposal of right-of-use assets	**–**	(32,086)
Loss on disposal of other intangible assets	**233**	–
Fair value changes of financial assets at FVTPL	**(553)**	(4)
Net foreign exchange (gain) loss	**(1,337)**	13,076
Loss on disposal of an associate	**–**	128
Share of results of associates	**15,874**	5,051
Operating cash flows before movements in working capital	**3,164,906**	3,046,473
Increase in inventories	**(218,136)**	(247,829)
Increase in trade and other receivables	**(1,636,797)**	(198,321)
Increase (decrease) in trade and other payables	**(482,198)**	650,311
Increase (decrease) in contract liabilities	**69,225**	(133,850)
Increase in debt instruments at FVTOCI	**(272,413)**	(1,044,500)
Cash generated from operations	**624,587**	2,072,284
PRC Enterprise Income Tax paid	**(396,113)**	(487,190)
Net cash from operating activities	**228,474**	1,585,094

	NOTE	2020 RMB'000	2019 RMB'000
Investing activities			
Acquisitions of subsidiaries, net of cash acquired	38	**(100,165)**	2,147
Cash consideration paid for the prior year acquisition of subsidiaries		**–**	(1,242)
Deposits paid for acquisition for subsidiaries		**–**	(40,600)
Purchase of financial assets at FVTPL		**–**	(1,414,900)
Proceeds from disposal of financial assets at FVTPL		**73,353**	1,343,180
Purchase of property, plant and equipment		**(1,129,616)**	(928,190)
Payments for right-of-use assets		**(48,765)**	(234,715)
Proceeds from disposal of property, plant and equipment		**6,629**	3,063
Proceeds on disposal of right-of-use assets		**–**	37,400
Proceeds on disposal of investment properties		**–**	50
Purchase of other intangible assets		**(74,009)**	(10,435)
Placement of time deposits		**(203,000)**	–
Assets-related government grants received		**154,103**	113,774
Capital contribution to an associate		**(13,676)**	(17,750)
Increase in pledged bank deposits		**(558,636)**	(990,783)
Decrease in pledged bank deposits		**771,726**	703,423
Interest received		**47,600**	51,251
Net cash used in investing activities		**(1,074,456)**	(1,384,327)
Financing activities			
Proceeds from issue of unsecured notes		**3,200,000**	2,800,000
Issue cost of unsecured notes		**(8,700)**	–
New bank borrowings raised		**5,658,795**	1,176,376
Repayment of unsecured notes		**(4,800,000)**	(2,500,000)
Repayment of bank borrowings		**(4,582,761)**	(2,030,609)
Repayment of lease liabilities		**(16,625)**	(17,504)
Dividend paid		**(216,346)**	(502,460)
Interest paid		**(269,900)**	(312,685)
Dividend paid to non-controlling interests of a subsidiary		**(113,899)**	(35,880)
Acquisition of additional interests in non-controlling interests		**–**	(16,702)
Capital injection from non-controlling interests		**134,993**	311,879
Net cash used in financing activities		**(1,014,443)**	(1,127,585)
Net decrease in cash and cash equivalents		**(1,860,425)**	(926,818)
Cash and cash equivalents at beginning of the year		**5,046,024**	5,975,825
Effect of foreign exchange rate changes		**28**	(2,983)
Cash and cash equivalents at end of the year, represented by bank balances and cash		**3,185,627**	5,046,024

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL

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

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 "Covid-19-Related Rent Concessions".

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

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

Impacts and accounting policies on early application of Amendment to HKFRS 16 "Covid-19-Related Rent Concessions"

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening accumulated profits in equity movement at 1 January 2020. The Group has benefited from a few months waiver of lease payments on several leases in several leased properities. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB781,000, which has been recognised as variable lease payments in profit or loss for the current year.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
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 2021.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs in issue but not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

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

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

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

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Business combinations or asset acquisitions (continued)

Asset acquisitions

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

Business combinations

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

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in October 2010).

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 and HKAS 19;

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

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that standard; and

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Business combinations or asset acquisitions (continued)

Business combinations (continued)

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Goodwill (continued)

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGUs (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of CGUs).

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

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

Investments in associates

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Investments in associates (continued)

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Investments in associates (continued)

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

Revenue from contracts with customers

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

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.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the most likely amount, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combinations, 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component on the basis of their relative stand-alone prices and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

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

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications (continued)

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

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

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. All 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.

Allocation of consideration to components of a contract

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

Refundable rental deposits

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

Sublease

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

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Foreign currencies

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

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

Borrowing costs

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

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

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

Government grants

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Government grants (continued)

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Taxation (continued)

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Taxation (continued)

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

Property, plant and equipment

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

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

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Investment properties

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

Investment properties also include leased properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

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

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

Intangible assets

Intangible assets acquired separately

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Intangible assets (continued)

Internally-generated intangible assets-research and development expenditure

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

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

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

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

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU it or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (continued)

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

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

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

Inventories

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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

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

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

A financial asset is held for trading if:

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

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

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income ("OCI") and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Financial assets at FVTPL

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

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

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

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

(i) Significant increase in credit risk

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (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.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

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

(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 and 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. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

Derecognition of financial assets

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgement in applying accounting policies

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

Business model assessment of trade receivables and bills receivables

Classification and measurement of financial assets including trade receivables and bills receivables depends on the results of SPPI on the principal amount outstanding and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group will hold the trade receivables till their maturity to receive the contractual cash flow which fulfilled SPPI criterion. As part of the credit risk management, the Group may sometimes factor a portfolio of trade receivables. And the factoring of account receivables are consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows as those factoring of account receivables are infrequent. As at 31 December 2020, the trade receivables with a carrying amount of RMB 4,552,737,000 (2019: RMB2,946,453,000) were held under the "held to collect" business model and were measured at amortised cost. The Group will endorse or discount a portfolio of bills receivables arising from sales transactions with certain specific customers prior to their original maturities which may result in derecognition of the financial assets prior to their maturities if those met the non-recourse criteria. As at 31 December 2020, the Group's bills receivables with a carrying amount of RMB1,383,732,000 (2019: RMB1,111,319,000) that were held under the "held to collect and sell" business model were measured at FVTOCI.

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

Key sources of estimation uncertainty

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

Impairment assessment of goodwill and other intangible assets with indefinite useful life allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang

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

At 31 December 2020, the carrying amounts of goodwill and other intangible assets allocated to Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate RMB3,329,809,000 (2019: RMB3,329,809,000) and RMB4,117,940,000 (2019: RMB4,117,940,000) respectively. Details of the recoverable amounts are disclosed in note 21.

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 24 and 43 respectively.

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

Key sources of estimation uncertainty (continued)

Impairment assessment of other intangible assets with finite useful lives

The Group assesses annually whether other intangible assets with finite useful lives have any indication of impairment, in accordance with the relevant accounting policies. Other intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable at the end of each reporting period. In the opinion of directors of the Company, there is no indicator of impairment (including adverse changes on financial performance such as profit margin, adverse changes on continuing customer portfolios etc.) identified for other intangible assets at 31 December 2020.

At 31 December 2020, the carrying amount of other intangible assets with finite useful lives was in aggregate RMB2,242,663,000 (2019: RMB2,333,113,000). Details of the recoverable amounts are disclosed in note 20.

Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and also consider technical or commercial obsolescence of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned. Changes in these estimations may have a material impact on the results of the Group. At 31 December 2020, the carrying amount of property, plant and equipment excluding construction in progress was RMB 4,979,614,000 (2019: RMB4,233,693,000) as disclosed in note 18.

Amortisation of other intangible assets with finite useful lives

Other intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives of the assets. The Group determines the estimated useful lives of other intangible assets on initial recognition in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives are determined taking into account the factors including expected changes in market demands for the Group's products, the Group's historical experience with similar assets, the useful lives of similar intangible assets in certain comparable transactions, historical customer data, anticipated technological changes, legal or similar limits on the use of other intangible assets and management's experience and industry knowledge. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates. The Group has performed an annual review of the amortisation period and the amortisation method for other intangible assets with finite useful life and has concluded that the expected useful life of the assets is not different from previous estimates, and there has not been a change in the expected pattern of consumption of the future economic benefits embodied in the assets. At 31 December 2020, the carrying amount of other intangible assets with finite useful lives was RMB2,242,663,000 (2019: RMB2,333,113,000) as disclosed in note 20.

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

Key sources of estimation uncertainty (continued)

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

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

The Group has performed an annual review of the useful life of these intangible assets and has concluded there is no foreseeable limit to the period over which the assets are expected to generate net cash flows for the Group and so these assets continue to have indefinite useful life. The carrying amount of the trademarks (including brand names) and product protection rights with indefinite useful lives were RMB1,594,548,000 and RMB2,166,163,000 respectively at 31 December 2020 (2019: RMB1,594,548,000 and RMB2,166,163,000).

Impairment of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place. At 31 December 2020, the carrying amount of inventories, net of allowance for slow-moving and obsolete inventories, were RMB 4,908,485,000 (2019: RMB4,691,753,000) as disclosed in note 26.

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

Key sources of estimation uncertainty (continued)

Recognition of deferred tax assets

As at 31 December 2020, deferred tax assets of RMB170,307,000 (2019: RMB151,637,000) have been recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Besides, no deferred tax assets has been recognised in respect of certain deductible tax losses of RMB450,977,000 (2019: RMB244,902,000) due to the unpredictability of future profits streams, details of which are set out in note 33. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which such a situation takes place.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2020					
Segments	**Finished drugs RMB'000**	**Concentrated TCM granules RMB'000**	**TCM decoction pieces RMB'000**	**TCM healthcare complex RMB'000**	**Local TCM integrated operation RMB'000**	**Total RMB'000**
Types of goods or services						
Goods						
Finished drugs	**3,015,016**	**–**	**–**	**–**	**–**	**3,015,016**
Concentrated TCM granules	**3,642**	**9,932,773**	**–**	**–**	**117,518**	**10,053,933**
TCM decoction pieces	**36,345**	**74,415**	**1,228,483**	**–**	**264,052**	**1,603,295**
Services						
TCM healthcare complex	**–**	**–**	**–**	**106,055**	**–**	**106,055**
Others	**11,880**	**5,768**	**8,919**	**–**	**1,302**	**27,869**
Total	**3,066,883**	**10,012,956**	**1,237,402**	**106,055**	**382,872**	**14,806,168**

5. REVENUE (CONTINUED)

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

	For the year ended 31 December 2020					
Segments	**Finished drugs RMB'000**	**Concentrated TCM granules RMB'000**	**TCM decoction pieces RMB'000**	**TCM healthcare complex RMB'000**	**Local TCM integrated operation RMB'000**	**Total RMB'000**
Geographical markets						
Mainland China	**3,066,292**	**9,926,246**	**1,237,402**	**106,055**	**382,872**	**14,718,867**
Hong Kong	**591**	**19,427**	**–**	**–**	**–**	**20,018**
Overseas and others	**–**	**67,283**	**–**	**–**	**–**	**67,283**
Total	**3,066,883**	**10,012,956**	**1,237,402**	**106,055**	**382,872**	**14,806,168**
Timing of revenue recognition						
A point in time	**3,066,883**	**10,012,956**	**1,237,402**	**106,055**	**382,872**	**14,806,168**

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

5. REVENUE (CONTINUED)

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

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

(ii) Performance obligations for contracts with customers

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

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

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

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

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

The Group regularly reviews the estimates and accordingly adjusts provisions.

5. REVENUE (CONTINUED)

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

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

The Group provides medical diagnosis and health examination services.

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

6. OPERATING SEGMENTS

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

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

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

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

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

6. OPERATING SEGMENTS (CONTINUED)

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

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

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

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

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM integrated operation RMB'000	Total RMB'000
For the year ended 31 December 2020						
Reportable segment revenue	3,148,913	10,247,408	2,136,657	107,908	677,983	16,318,869
Eliminated of inter-segment revenue	(82,030)	(234,452)	(899,255)	(1,853)	(295,111)	(1,512,701)
Revenue from external customers	3,066,883	10,012,956	1,237,402	106,055	382,872	14,806,168
Reportable segment profit (adjusted EBITDA)	525,502	2,526,261	46,118	12,639	7,485	3,118,005
Interest income	83,854	192,324	8,518	104	4,055	288,855
Eliminated of inter-segment interest income	(65,841)	(167,969)	(6,199)	–	(1,246)	(241,255)
Interest income from third parties	18,013	24,355	2,319	104	2,809	47,600
Finance costs	140,007	313,996	18,066	2,182	11,670	485,921
Eliminated of inter-segment finance costs	(78,638)	(149,826)	(7,877)	(444)	(4,470)	(241,255)
Finance costs from third parties	61,369	164,170	10,189	1,738	7,200	244,666
Depreciation and amortisation	186,751	331,855	87,761	17,389	60,323	684,079
As at 31 December 2020						
Reportable segment assets	6,355,934	22,331,527	4,229,574	289,822	3,206,802	36,413,659
Reportable segment liabilities	2,154,857	7,051,430	2,720,889	91,128	1,509,813	13,528,117

6. OPERATING SEGMENTS (CONTINUED)

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

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

6. OPERATING SEGMENTS (CONTINUED)

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

	2020 RMB'000	2019 RMB'000
Reportable segment profit (adjusted EBITDA)	**3,118,005**	3,003,332
Depreciation and amortisation	**(684,079)**	(590,826)
Interest income	**47,600**	51,251
Finance costs	**(244,666)**	(301,047)
Rental income	**9,889**	10,159
Fair value changes on financial assets at FVTPL	**553**	4
Net exchange loss	**(1,337)**	(13,076)
Loss on disposal of an associate	**–**	(128)
Share of results of associates	**(15,874)**	(5,051)
Consolidated profit before tax	**2,230,091**	2,154,618

	2020 RMB'000	2019 RMB'000
Assets		
Reportable segment assets	**36,413,659**	38,241,660
Elimination of inter-segment receivables	**(3,515,057)**	(6,005,871)
	32,898,602	32,235,789
Financial assets at FVTPL	**–**	72,800
Deferred tax assets	**170,307**	151,637
Unallocated head office and corporate assets	**19,474**	13,499
Consolidated total assets	**33,088,383**	32,473,725
Liabilities		
Reportable segment liabilities	**13,528,117**	17,090,800
Elimination of inter-segment payables	**(3,515,057)**	(6,005,871)
	10,013,060	11,084,929
Tax liabilities	**150,828**	124,225
Deferred tax liabilities	**1,710,376**	1,748,580
Unallocated head office and corporate liabilities	**317,698**	465,266
Consolidated total liabilities	**12,191,962**	13,423,000

6. OPERATING SEGMENTS (CONTINUED)

(iii) Geographical information and information about major customers

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

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both 2020 and 2019.

7. OTHER INCOME

	2020	2019
	RMB'000	RMB'000
Government grants		
– Unconditional subsidies (note i)	**151,724**	132,807
– Conditional subsidies (note ii)	**45,343**	31,151
Interest income on bank deposits	**47,600**	51,251
Rental income from investment properties	**9,889**	10,159
	254,556	225,368

Notes:

(i) The amount represents subsidy income received from various government authorities as incentives to the Group to recognise their contribution to the local economy.

(ii) Including government grants and subsidies have been received to compensate for the Group's research and development expenditures, which relate to future costs to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants are recognised in profit or loss when related costs are subsequently incurred and the Group receives government acknowledge of compliance. Other government grants have been received to compensate for the construction of the production line. The subsidies are recognised in profit or loss over the useful lives of the relevant assets.

8. OTHER GAINS AND LOSSES

	2020 **RMB'000**	2019 RMB'000
Impairment loss recognised in respect of		
– goodwill (note 17)	**(16,837)**	(30,184)
– other intangible assets (note 20)	**–**	(1,779)
Gain on disposal of right-of-use assets	**–**	32,086
Gain (loss) on disposal of property, plant and equipment	**318**	(7,386)
Loss on disposal of other intangible assets	**(233)**	–
Loss on disposal of an associate	**–**	(128)
Fair value changes on financial assets at FVTPL	**553**	4
Net foreign exchange loss	**(1,337)**	(13,076)
Others	**25,748**	(42,630)
	8,212	(63,093)

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

	2020 **RMB'000**	2019 RMB'000
Impairment losses (recognised) reversed in respect of		
– trade receivables	**(40,458)**	(17,424)
– other receivables	**(12,862)**	(182)
– bills receivables	**–**	1,172
– debt instruments at FVTOCI	**(405)**	(1,575)
	(53,725)	(18,009)

Details of impairment assessment for the year ended 31 December 2020 are set out in note 43.

10. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest expense:		
– Interest on bank borrowings	**60,298**	44,658
– Effective interest expense on unsecured notes	**148,784**	203,212
– Factoring of trade receivables	**39,170**	76,858
– Interest on lease liabilities	**5,039**	5,055
Total borrowing costs	**253,291**	329,783
Less: amounts capitalised in the cost of qualifying assets	**(8,625)**	(28,736)
	244,666	301,047

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.16% (2019: 5.16%) per annum to expenditure on qualifying assets.

11. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**400,933**	381,226
Underprovision in prior years	**21,783**	11,090
	422,716	392,316
Deferred tax credit (note 33)	**(53,269)**	(10,995)
	369,447	381,321

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, except for the following group entities.

11. INCOME TAX EXPENSE (CONTINUED)

(1) Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing"), Dezhong, Foshan Dezhong Pharmaceutical Machinery Co., Ltd. ("Dezhong Yaoji"), Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), Jiangyin Tianjiang, Guangdong Yifang Pharmaceutical Co., Ltd. ("GD Yifang"), Huayi Pharmaceutical Co., Ltd. ("Huayi"), Jingfang, Anhui Tianxiang Pharmaceutical Co., Ltd. ("Tianxiang"), Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical"), Sinopharm Wuhan Zhonglian Siyao Pharmaceutical Co., Ltd. ("Zhonglian Siyao"), Hunan Yifang Tianjiang Pharmaceutical Co., Ltd. ("Hunan Yifang"), Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited. Ltd. ("Beijing Huamiao") and Anhui Fengliaoxing TCM Decoction Pieces Technology Co., Ltd. ("Anhui Fengliaoxing") were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for the year ended 31 December 2020 (2019: The PRC Enterprise Income Tax rate applicable to Feng Liao Xing, Dezhong, Dezhong Yaoji, Guangdong Medi-World, Jiangyin Tianjiang, GD Yifang, Huayi, Jingfang, Anhui Fengliaoxing and Tianxiang was 15%) pursuant to relevant documents issued by local government authorities;

(2) Tongjitang Pharmaceutical, Sichuan Tianhao Pharmaceutical Company Limited ("Sichuan Tianhao"), Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante"), Shaanxi Yifang Pingkang Pharmaceutical Company Limited ("Yifang Pingkang"), and Longxi Yifang Pharmaceutical Co., Ltd. ("Longxi Yifang"), being qualified enterprises located in the western region of the PRC, enjoy a preferential income tax rate of 15% effective retrospectively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58, dated 27 July 2011; They continue to enjoy a preferential income tax rate of 15% effective from 1 January 2021 to 31 December 2030 pursuant to Announcement of the Ministry of Finance [2020] No. 23, dated 23 April 2020.

(3) Jiangsu Jiangkang Pharmaceutical Co., Ltd. ("Jiangkang Pharmaceutical"), Fujian Chengtian Jinling Pharmaceutical Co., Ltd. ("Fujian Chengtian Pharmaceutical"), Shandong Fengliaoxing Herbal Co., Ltd. ("Shandong Fengliaoxing"), Taixing Tianjiang Pharmaceutical Co., Ltd. (Taixing Tianjiang), Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal"), Longxixian Feng Liao Xing Herbal Co., Ltd. ("Longxixian Fengliaoxing"), Sichuan Tianxiong Pharmaceutical Company Limited ("Sichuan Tianxiong"), Anhui Fengliaoxing, Beijing Huamiao and Sichuan Jiangyou Zhongbafuzi Technology Development Co., Ltd. ("Sichuan Jiangyou"), being qualified enterprises with operation of medicinal plants primary processing business in the PRC, enjoy a full enterprise income tax exemption during 2020 pursuant to the EIT Law, Order of the President [2007] No. 63 (2019: Jiangkang Pharmaceutical, Shandong Fengliaoxing, Taixing Tianjiang, Tongjitang Herbal, Longxixian Fengliaoxing, Sichuan Tianxiong, Anhui Fengliaoxing, Beijing Huamiao and Sichuan Jiangyou);

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

11. INCOME TAX EXPENSE (CONTINUED)

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

	2020 **RMB'000**	2019 RMB'000
Profit before tax	**2,230,091**	2,154,618
Tax at the domestic income tax rate of 25%	**557,523**	538,655
Tax effect of expenses not deductible for tax purposes	**16,440**	11,932
Tax effect of income not taxable for tax purposes	**(9,064)**	(7,289)
Income tax at concessionary rate	**(250,726)**	(183,089)
Additional tax deduction for research and development expenses	**(50,198)**	(40,236)
Effect of tax exemptions granted to PRC subsidiaries	**(14,121)**	(28,546)
Underprovision in respect of prior years	**21,783**	11,090
Tax effect of tax losses not recognised	**54,590**	37,535
Utilisation of tax losses previously not recognised	**(3,072)**	(3,977)
Withholding tax on interest income from PRC entities	**16,509**	10,960
Withholding tax on distributable profits of PRC entities	**29,783**	34,286
Income tax expense for the year	**369,447**	381,321

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

12. PROFIT FOR THE YEAR

	2020 **RMB'000**	2019 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration	**8,515**	8,273
Other staff costs		
Salaries, wages and other benefits	**1,730,998**	1,611,974
Contributions to defined contribution retirement benefits (note)	**29,396**	98,185
	1,760,394	1,710,159
Auditor's remuneration	**5,780**	5,250
Depreciation		
– investment properties	**7,709**	5,567
– property, plant and equipment	**472,848**	379,412
– right-of-use assets	**39,296**	39,929
Amortisation of other intangible assets	**164,226**	165,918
Total depreciation and amortisation	**684,079**	590,826
Less: capitalised in inventories	**(472,312)**	(420,557)
	211,767	170,269
Covid-19-related rent concessions	**(781)**	–
Write down for inventories	**15,333**	38,861
Gross rental income from investment properties	**(9,889)**	(10,159)
Less: direct operating expenses incurred for investment properties	**1,126**	1,253
	(8,763)	(8,906)

Note: The retirement benefit reduction and exemption related to Covid-19 were granted by the local PRC government from February to December 2020.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	2020				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	1,309	1,239	47	2,595
Wang Xiaochun	–	1,180	1,180	55	2,415
Yang Wenming	–	1,250	1,180	47	2,477
Non-executive directors					
Yang Shanhua	–	–	–	–	–
Li Ru (note a)	–	–	–	–	–
Yang Binghua	–	–	–	–	–
Wang Kan	–	–	–	–	–
Kui Kaipin	–	–	–	–	–
Independent non-executive directors					
Xie Rong	222	35	–	–	257
Yu Tze Shan Hailson	222	35	–	–	257
Qin Ling (note c)	222	35	–	–	257
Li Weidong (note c)	222	35	–	–	257
	888	3,879	3,599	149	8,515

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

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

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

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

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

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

Notes:

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

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

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

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

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

Some directors were also the employees of the CNPGC and their remuneration were paid and borne by CNPGC and there is no reasonable basis to allocate the emoluments relating to services provided to the Group during the years ended 31 December 2020 and 2019.

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

Neither the Chief Executive Officer nor any of the Directors waived any emoluments, compensation loss and inducement to join or upon joining the Group during the years ended 31 December 2020 and 2019.

14. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2019: three directors), details of whose remuneration are set out in note 13 above. Details of the remuneration for the year of the remaining two (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries and allowances	**2,164**	1,642
Discretionary bonuses	**2,074**	2,760
Retirement benefits	**46**	91
	4,284	4,493

14. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The emoluments of the two (2019: two) individuals with highest emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
HK$		
2,000,001 – 2,500,000	**1**	1
2,500,001 – 3,000,000	**1**	1

15. DIVIDENDS

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

	2020 RMB'000	2019 RMB'000
Nil for 2020 Interim (2019: 2019 Interim of HK5.72 cents) per share	**–**	258,413
2019 final of HK4.76 cents (2019: 2018 final of HK5.51 cents) per share	**219,329**	244,093
	219,329	502,506

The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2020 (2019: HK4.76 cents per share).

16. EARNINGS PER SHARE

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

	2020 **RMB'000**	2019 RMB'000
Profit attributable to the owners of the Company	**1,663,255**	1,588,114

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

No diluted earnings per share for both 2020 and 2019 were presented as there were no potential ordinary shares in issue for both 2020 and 2019.

17. GOODWILL

	RMB'000
COST	
At 31 December 2019 and 2020	3,568,984
IMPAIRMENT	
At 1 January 2019	–
Impairment loss recognised in the year	30,184
At 31 December 2019	30,184
Impairment loss recognised in the year	16,837
At 31 December 2020	47,021
CARRYING VALUES	
At 31 December 2020	3,521,963
At 31 December 2019	3,538,800

Particulars regarding to the carrying amount of goodwill and impairment testing on goodwill are disclosed in note 21.

18. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Owned properties RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
COST								
At 1 January 2019	2,914,939	1,281,360	44,703	598,917	455,675	5,295,594	51,921	5,347,515
Additions	82,322	88,473	5,946	1,194,634	126,422	1,497,797	–	1,497,797
Acquisitions of subsidiaries (note 38)	–	330	–	66	6	402	–	402
Transfer from construction in progress	481,294	113,550	357	(656,992)	61,791	–	–	–
Transfer to investment properties	(37,502)	–	–	–	–	(37,502)	37,502	–
Disposals	(4,170)	(33,386)	(11,634)	–	(22,618)	(71,808)	(4,251)	(76,059)
At 31 December 2019	3,436,883	1,450,327	39,372	1,136,625	621,276	6,684,483	85,172	6,769,655
Additions	40,552	47,719	5,341	1,093,798	123,081	1,310,491	–	1,310,491
Acquisitions of subsidiaries (note 38)	206,195	28,978	154	–	798	236,125	–	236,125
Transfer from construction in progress	706,385	209,229	1,508	(975,344)	58,222	–	–	–
Transfer from right-of-use assets	–	–	–	–	–	–	23,271	23,271
Transfer to investment properties	(212,750)	–	–	(7,926)	–	(220,676)	220,676	–
Disposals	(2,309)	(15,867)	(1,561)	–	(12,302)	(32,039)	–	(32,039)
At 31 December 2020	4,174,956	1,720,386	44,814	1,247,153	791,075	7,978,384	329,119	8,307,503
ACCUMULATED DEPRECIATION								
At 1 January 2019	331,129	480,082	19,999	–	165,944	997,154	9,905	1,007,059
Charge for the year	170,344	134,087	6,836	–	68,145	379,412	5,567	384,979
Transfer to investment properties	(1,042)	–	–	–	–	(1,042)	1,042	–
Written back on disposals	(2,235)	(28,662)	(10,960)	–	(19,502)	(61,359)	(4,201)	(65,560)
At 31 December 2019	498,196	585,507	15,875	–	214,587	1,314,165	12,313	1,326,478
Charge for the year	227,733	101,129	7,619	–	136,367	472,848	7,709	480,557
Transfer to investment properties	(9,668)	–	–	–	–	(9,668)	9,668	–
Transfer from right-of-use assets	–	–	–	–	–	–	238	238
Written back on disposals	(827)	(12,296)	(1,403)	–	(11,202)	(25,728)	–	(25,728)
At 31 December 2020	715,434	674,340	22,091	–	339,752	1,751,617	29,928	1,781,545
CARRYING VALUES								
At 31 December 2020	3,459,522	1,046,046	22,723	1,247,153	451,323	6,226,767	299,191	6,525,958
At 31 December 2019	2,938,687	864,820	23,497	1,136,625	406,689	5,370,318	72,859	5,443,177

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

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

(b) The Group is not exposed to foreign currency risk for investment properties as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

(c) All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2020 was RMB359,415,000 (2019: RMB106,429,000). The fair value of the investment properties as at 31 December 2020 and 31 December 2019 has been arrived at based on a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent valuer not connected with the Group.

The fair value of the investment properties as at 31 December 2020 was determined based on the market approach (direct comparison approach) assuming sale of the property interests in their existing states with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy are as follows:

	2020		2019	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Commercial property units	**402**	**2,990**	431	2,990
Office units	**58,684**	**85,125**	30,279	52,642
Plant units	**240,105**	**271,300**	42,149	50,797
	299,191	**359,415**	72,859	106,429

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

(d) The above items of property, plant and equipment, other than construction in progress, are depreciated after taking into account their estimated residual value, using straight-line method over the following useful lives:

Owned properties	20 to 50 years
Plant, machinery and equipment	3 to 15 years
Motor vehicles	4 to 10 years
Office equipment and others	3 to 10 years
Investment properties	20 to 50 years

(e) Certain of the Group's buildings with carrying values of RMB383,975,000 (2019: RMB341,214,000) were pledged to secure certain bank borrowings granted to the Group.

(f) The Group has not yet obtained the building ownership certificates for buildings situated in the PRC with an aggregate carrying values of RMB1,055,001,000 (2019: RMB1,064,565,000). The buildings are currently in use and in the opinion of directors, there is no material legal impediment for the Group to obtain the building ownership certificates.

19. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	**Leased properties RMB'000**	**Total RMB'000**
As at 31 December 2020			
Carrying amount	**1,159,718**	**83,070**	**1,242,788**
As at 31 December 2019			
Carrying amount	**1,135,333**	**95,895**	**1,231,228**
For the year ended 31 December 2020			
Depreciation charge	**23,829**	**15,467**	**39,296**
For the year ended 31 December 2019			
Depreciation charge	**25,485**	**14,444**	**39,929**

19. RIGHT-OF-USE ASSETS (CONTINUED)

	2020 **RMB'000**	2019 RMB'000
Expense relating to short-term leases	**17,695**	12,048
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**444**	160
Total cash outflow for leases	**83,529**	264,427
Additions to right-of-use assets	**73,889**	385,053

For both years, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 12 months to 20 years, with no extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB7,267,000 (2019: RMB25,217,000) in which the Group is in the process of obtaining.

The Group regularly entered into short-term leases for plant and warehouse. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Certain of the Group's right-of-use assets with carrying values of RMB73,503,000 (2019: RMB36,554,000) were pledged to secure certain bank borrowings granted to the Group.

Restrictions or covenants on leases

In addition, lease liabilities of RMB103,955,000 are recognised with related right-of-use assets of RMB83,070,000 as at 31 December 2020 (2019: lease liabilities of RMB114,118,000 and related right-of-use assets of RMB95,895,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

20. OTHER INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Licenses and franchises RMB'000	Total RMB'000
COST							
At 1 January 2019	2,827,306	2,006,280	59,000	15,593	2,245,552	183,897	7,337,628
Acquisition of subsidiaries (note 38)	–	–	–	519	–	–	519
Additions	6,403	55	–	3,977	–	–	10,435
At 31 December 2019	2,833,709	2,006,335	59,000	20,089	2,245,552	183,897	7,348,582
Additions	209	–	–	9,482	–	64,318	74,009
Disposals	(4,079)	–	–	(37)	–	–	(4,116)
At 31 December 2020	2,829,839	2,006,335	59,000	29,534	2,245,552	248,215	7,418,475
AMORTISATION AND IMPAIRMENT							
At 1 January 2019	232,586	19,987	58,508	6,783	387,844	19,087	724,795
Amortisation for the year	32,047	988	492	3,230	116,233	12,928	165,918
Impairment loss recognised in profit or loss	1,779	–	–	–	–	–	1,779
At 31 December 2019	266,412	20,975	59,000	10,013	504,077	32,015	892,492
Amortisation for the year	27,606	980	–	3,657	116,657	15,326	164,226
Written back on disposals	(3,846)	–	–	(37)	–	–	(3,883)
At 31 December 2020	290,172	21,955	59,000	13,633	620,734	47,341	1,052,835
CARRYING VALUES							
At 31 December 2020	2,539,667	1,984,380	–	15,901	1,624,818	200,874	6,365,640
At 31 December 2019	2,567,297	1,985,360	–	10,076	1,741,475	151,882	6,456,090

20. OTHER INTANGIBLE ASSETS (CONTINUED)

At 31 December 2020, the carrying amount of other intangible assets with finite useful lives was RMB 2,242,663,000 (2019: RMB 2,333,113,000). Other intangible assets with finite useful lives are amortised on a straight-line basis over the following periods:

		2020	2019
		RMB'000	RMB'000
Product protection rights	5 to 25 years	**373,504**	401,134
Trademarks	10 to 44 years	**27,566**	28,546
Distribution network	10 years	**–**	–
Software	5 to 10 years	**15,901**	10,076
Customer relationship	5 to 21 years	**1,624,818**	1,741,475
Licenses and franchises	12 to 20 years	**200,874**	151,882
		2,242,663	2,333,113

The amortisation charge for the year is mainly included in "cost of sales" line item in the consolidated statement of profit or loss and other comprehensive income.

20. OTHER INTANGIBLE ASSETS (CONTINUED)

The following other intangible assets, trademarks (including brand names) and product protection rights acquired through business combinations, are assessed to have indefinite useful lives. The product protection rights and trademarks have a legal life of 5 years and 10 years respectively but are renewable at minimal cost. The directors of the Company are of the opinion that the Group could renew the product protection rights and maintain the trademarks (including brand names) continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks (including brand names) and product protection rights have no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademarks (including brand names) and product protection rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks (including brand names) and product protection rights will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 21.

	Trademarks		**Product protection rights**	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Tongjitang Group*				
– Tongjitang Pharmaceutical	**209,047**	209,047	**–**	–
– Jingfang	**37,779**	37,779	**–**	–
– Pulante	**5,037**	5,037	**–**	–
Shanghai Tongjitang	**110,403**	110,403	**–**	–
Jiangyin Tianjiang Group	**1,594,548**	1,594,548	**2,166,163**	2,166,163
	1,956,814	1,956,814	**2,166,163**	2,166,163

* Tongitang Pharmaceutical, Jingfang and Pulante are collectively referred to as Tongjitang Group.

21. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill, trademarks (including brand names) and product protection rights with indefinite useful lives set out in notes 17 and 20 have been allocated to individual CGUs as below:

	Goodwill		Trademarks		Product protection rights	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Manufacture and sale of pharmaceutical products						
Dezhong	**100,391**	100,391	**–**	–	**–**	–
Feng Liao Xing	**–**	–	**–**	–	**–**	–
Guangdong Medi-World	**26,055**	26,055	**–**	–	**–**	–
Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. ("Luya")	**11,221**	11,221	**–**	–	**–**	–
Tongjitang Group						
– Tongjitang Pharmaceutical	**770,153**	770,153	**209,047**	209,047	**–**	–
– Jingfang	**139,184**	139,184	**37,779**	37,779	**–**	–
– Pulante	**18,558**	18,558	**5,037**	5,037	**–**	–
Jiangyin Tianjiang Group	**2,208,980**	2,208,980	**1,594,548**	1,594,548	**2,166,163**	2,166,163
Huayi	**5,852**	5,852	**–**	–	**–**	–
Shanghai Tongjitang	**111,101**	111,101	**110,403**	110,403	**–**	–
Tongjitang Herbal	**29,433**	29,433	**–**	–	**–**	–
Beijing Huamiao	**–**	11,447	**–**	–	**–**	–
Anhui Fengliaoxing	**–**	–	**–**	–	**–**	–
Zhonglian Pharmaceutical	**68,567**	68,567	**–**	–	**–**	–
Sale of pharmaceutical products						
Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")	**2,449**	2,449	**–**	–	**–**	–
Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain")	**30,019**	30,019	**–**	–	**–**	–
Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")	**–**	5,390	**–**	–	**–**	–
	3,521,963	3,538,800	**1,956,814**	1,956,814	**2,166,163**	2,166,163

21. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

In addition to goodwill, trademarks, and product protection rights above, property, plant and equipment, other intangible assets and right-of-use assets that generate cash flows together with the related goodwill, trademark and product protection rights are also included in the respective CGU for the purpose of impairment assessment.

During the year ended 31 December 2020, the management of the Group has recognised impairment loss of RMB16,837,000 in relation to goodwill in the CGUs of Beijing Huamiao, and Winteam Sales (2019: RMB30,184,000 in relation to Feng Liao Xing, Huayi and Anhui Fengliaoxing). The impairment loss has been included in profit or loss in the other gains and losses line item.

In the opinion of the directors, no additional impairment loss of any of other CGUs is identified during the year ended 31 December 2020 (2019: nil).

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The recoverable amounts of the CGUs as at 31 December 2020 has been arrived at on the basis of valuation carried out on the respective date by an independent qualified professional valuers. The key assumptions used in the valuations are those regarding the suitable discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGUs. The Group determined the value-in-use by preparing cash flow projections of these CGUs derived from the most recent financial forecast approved by the management covering a five-year period with an average sales growth rate as mentioned below. Cash flows beyond the fifth year are extrapolated using an estimated growth rate as mentioned below. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate reflects specific risks relating to the relevant CGUs.

21. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

	Jiangyin Tianjing Group	Dezhong	Tongjitang Pharmaceutical	Jingfang	Shanghai Tongjitang	Others
Average growth rate for five-year period						
2020	11.63%	6.15%	11.47%	12.36%	5.60%	3.51% – 20.26%
2019	15.73%	4.22%	11.10%	10.26%	5.35%	5.7% – 22.55%
Growth rate beyond the fifth year						
2020	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
2019	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Pre-tax discount rates						
2020	16.43%	15.42%	14.66%	14.82%	13.24%	13.00% – 17.22%
2019	17.71%	15.56%	15.76%	16.26%	15.12%	14.19% – 19.69%

As at 31 December 2020, the recoverable amount of the above CGUs exceeds their carrying amount by 4% to 64% (2019: 4% to 45%).

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the above CGUs that contain goodwill and other intangible assets to exceed their recoverable amounts.

22. INTERESTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Cost of investments in associates, unlisted	**44,117**	30,441
Share of post-acquisition losses and other comprehensive expense	**(21,956)**	(6,082)
	22,161	24,359

22. INTERESTS IN ASSOCIATES (CONTINUED)

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Country of establishment and principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting power held		Principal activities
		2020	2019	**2020**	2019	
Mianyang Anju District Feishui Town Tiantai Mountain Chinese Medicine Herbs Planting Professional Cooperatives	The PRC	**37.6%**	37.6%	**37.6%**	37.6%	Chinese Medicine Herbs planting
An District Feishui Town Tianfu Fuzi Professional Cooperatives	The PRC	**37.5%**	37.5%	**37.5%**	37.5%	Fuzi planting
Guangdong Baobaobao Healthy Soup Co., Ltd.	The PRC	**49%**	49%	**49%**	49%	Healthy soup production
Guangdong Haisikanger Rehabilitation Medical Co., Ltd. ("Guangdong Haisikanger")	The PRC	**40%**	40%	**40%**	40%	Rehabilitation service
Huizhou Gehong TCM Clinics Co., Ltd.^	The PRC	**35%**	–	**35%**	–	Chinese medical institution
Fengliaoxing (Foshan Nanhai) TCM Clinic Co., Ltd.^	The PRC	**35%**	–	**35%**	–	Chinese medical institution
Sinopharm Intelligent Technology (Shanghai) Co., Ltd.^*	The PRC	**10%**	–	**10%**	–	Internet Information Service for Drug

^ Established by the Group during the year.

* The Group hold power over the associate via voting rights from one board seat of Sinopharm Intelligent Technology (Shanghai) Co., Ltd.

Aggregate information of associates that are not individually material

	2020 **RMB'000**	2019 RMB'000
The Group's share of losses and total comprehensive expense	**(15,874)**	(5,051)
Aggregate carrying amount of the Group's interest in associates	**22,161**	24,359

23. DEPOSITS AND PREPAYMENTS

	2020 RMB'000	2019 RMB'000
Prepayments for property, plant and equipment	**108,027**	170,210
Deposit paid for acquisition of subsidiaries	**–**	40,600
Deposit paid for acquisition of property, plant and equipment	**–**	94,000
	108,027	304,810

24. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**4,640,875**	3,001,626
Less: allowance for credit losses	**(88,138)**	(55,173)
	4,552,737	2,946,453
Prepayments for raw materials	**102,503**	155,447
Advance tax payments	**275,051**	232,016
Other receivables	**137,286**	152,331
Less: allowance for credit losses	**(34,573)**	(28,296)
	102,713	124,035
	5,033,004	3,457,951

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB2,532,688,000.

The Group allows a credit period ranging from 180 to 365 days to trade customers including distributors, hospitals and primary health care institutions.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

The aging analysis of the Group's trade receivables based on invoice date at the end of each reporting period are as follows:

	2020	2019
	RMB'000	RMB'000
0 – 90 days	**2,803,581**	2,071,360
91 – 180 days	**1,097,214**	445,385
181 – 365 days	**653,072**	426,727
Over 365 days	**87,008**	58,154
	4,640,875	3,001,626

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMBRMB188,864,000 (2019: RMB217,985,000) which are past due as at the reporting date.

Included in trade and other receivables are RMB7,774,000 (2019: RMB16,128,000) and RMB 12,926,000 (2019: RMB11,092,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currency of the relevant group entities.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2020 are set out in note 43.

25. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2020 and 2019 that were transferred to banks by discounting on a full recourse basis. As the Group has not transferred the significant risks and rewards, it continues to recognise the full carrying amount and has recognised the cash received on the transfer as a collateralised borrowing (see note 34). These financial assets are carried at amortised cost in the consolidated statement of financial position.

	Bills discounted to banks with full recourse	
	2020	2019
	RMB'000	RMB'000
Carrying amount of transferred assets	**11,741**	–
Carrying amount of associated liabilities	**11,741**	–
Net position	**–**	–

26. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**1,380,460**	1,346,297
Work in progress	**1,614,392**	1,713,268
Finished goods	**1,913,633**	1,632,188
	4,908,485	4,691,753

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	**5,664,760**	5,706,300
Write down of inventories	**15,333**	38,861
	5,680,093	5,745,161

27. FINANCIAL ASSETS AT FVTPL

The amount represented structured bank deposits. During the current year, the arrangements of structured bank deposits have been completed and fully redeemed.

28. DEBT INSTRUMENTS AT FVTOCI

The amounts represent the bills receivables that were held under the "hold to collect and sell" business model and the aged analysis based on invoice date at the end of each reporting period are as follows:

	2020 RMB'000	2019 RMB'000
0 – 90 days	**538,787**	355,655
91 – 180 days	**814,283**	711,344
181-365 days	**30,662**	44,320
	1,383,732	1,111,319

Details of impairment assessment are set out in note 43.

29. TIME DEPOSITS/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Time deposits

As at 31 December 2020, the time deposits amounted to RMB 203,000,000 carried fixed interest rates ranging from 1.30% to 1.80% per annum with an original maturity of 6 months (2019: Nil).

(b) Pledged bank deposits

The amounts represent the guarantee deposits for bills payables and carry interest at market rates ranging from 0.3% to 0.35% per annum (2019: 0.3% to 0.35%).

(c) Bank balances and cash

Included in bank balances and cash is RMB3,185,627,000 (2019: RMB5,046,024,000) which represents cash held by the Group and short-term deposits carrying interest at prevailing market rates ranging from 0.30% to 1.55% per annum (2019: 0.30% to 0.35% per annum) with original maturity of three months or less.

The remaining of bank balances and cash is RMB254,613,000 (2019: RMB567,609,000) which represents the cash collected on behalf of financial institutions that entered the non-recourse factoring arrangement of trade receivables with the Group.

Included in time deposits/pledged bank deposits/bank balances and cash are RMB 15,263,000 (2019: RMB15,346,000) and RMB628,000 (2019: 591,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currency of the relevant group entities.

Details of impairment assessment of time deposits/pledged bank deposits/bank balances and cash are set out in note 43.

30. TRADE AND OTHER PAYABLES

	2020 **RMB'000**	2019 RMB'000 (Restated)
Trade payables	**1,393,043**	1,684,157
Deposits received	**796,679**	900,153
Salaries and welfare payables	**348,414**	321,986
Other tax payables	**182,859**	189,274
Accruals of operating expenses	**562,254**	555,241
Bills payables	**571,108**	802,874
Dividend payable	**65,615**	118,958
Consideration payable for acquisition of subsidiaries	**19,548**	35,518
Collection of accounts receivables on behalf of financial institutions that entered the non-recourse factoring arrangement with the Group	**254,613**	567,609
Other payables	**218,495**	103,962
	4,412,628	5,279,732

The aging analysis of the Group's trade and bills payables based on invoice date at the end of each reporting period are as follows:

	2020 **RMB'000**	2019 RMB'000
0 – 90 days	**1,437,683**	2,009,949
91 – 180 days	**257,608**	306,583
181 – 365 days	**184,849**	46,069
Over 365 days	**84,011**	124,430
	1,964,151	2,487,031

Included in trade and other payables is RMB1,306,000 (2019: RMB2,338,000), which is denominated in HK$, the currency other than functional currency of the relevant group entities.

31. CONTRACT LIABILITIES

	2020 **RMB'000**	2019 RMB'000
Amounts received in advance of delivery products	**292,331**	223,106

As at 1 January 2019, contract liabilities amounted to RMB356,956,000.

Contract liabilities as at 1 January 2020 and 2019 were fully recognised as revenue for the year ended 31 December 2020 and 2019, respectively.

32. DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under non-current liabilities are as follows:

	2020 **RMB'000**	2019 RMB'000
At the beginning of the year	**265,181**	182,558
Additions	**185,254**	113,774
Credited to profit or loss (note 7)	**(45,343)**	(31,151)
At the end of the year	**405,092**	265,181

As at 31 December 2020, deferred government grants of the Group mainly includes various conditional government grants relating to purchase of property, plant and equipment. Such deferred government grants will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

33. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 **RMB'000**	2019 RMB'000
Deferred tax assets	**(170,307)**	(151,637)
Deferred tax liabilities	**1,710,376**	1,748,580
	1,540,069	1,596,943

33. DEFERRED TAXATION (CONTINUED)

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

	Excess of fair value over the carrying amounts for intangible assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	ECL provision RMB'000	Fair value changes of debt instruments at FVTOCI RMB'000	Withholding tax on distributable profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	1,645,998	85,108	(30,258)	(107)	5,792	(32,556)	(6,342)	(57,549)	1,610,086
(Credited) charged to profit or loss	(29,067)	6,941	(2,909)	(279)	34,286	(16,640)	(6,085)	3,236	(10,517)
Charge to other comprehensive income	–	–	–	(2,148)	–	–	–	–	(2,148)
Release upon dividend declared	–	–	–	–	(478)	–	–	–	(478)
At 31 December 2019	1,616,931	92,049	(33,167)	(2,534)	39,600	(49,196)	(12,427)	(54,313)	1,596,943
Acquisition of subsidiaries	–	(3,553)	(432)	–	–	–	–	–	(3,985)
(Credited) charged to profit or loss	(33,457)	2,830	(1,477)	82	29,783	(6,636)	(823)	(9,764)	(19,462)
Credit to other comprehensive income	–	–	–	380	–	–	–	–	380
Release upon dividend declared	–	–	–	–	(33,807)	–	–	–	(33,807)
At 31 December 2020	1,583,474	91,326	(35,076)	(2,072)	35,576	(55,832)	(13,250)	(64,077)	1,540,069

At the end of the reporting period, the Group had unused tax losses of RMB510,377,000 (2019: RMB294,610,000) available for offset against future profits. A deferred tax asset of RMB 13,250,000 (2019: RMB12,427,000) has been recognised in respect of RMB59,400,000 (2019: RMB49,708,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB450,977,000 (2019: RMB244,902,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses with expiry dates as disclosed in the following table.

	2020 RMB'000	2019 RMB'000
2023	**46,244**	58,526
2024	**114,759**	114,759
2025	**105,555**	–
2028	**36,236**	36,236
2029	**35,381**	35,381
2030	**112,802**	–
	450,977	244,902

33. DEFERRED TAXATION (CONTINUED)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB6,445,750,000 (2019: RMB5,287,580,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

34. BANK AND OTHER BORROWINGS

	2020 **RMB'000**	2019 RMB'000 (Restated)
Bank loans	**1,810,951**	754,086
Other loans	**68,485**	45,248
	1,879,436	799,334
Secured	**831,478**	336,061
Unsecured	**1,047,958**	463,273
	1,879,436	799,334

	2020 **RMB'000**	2019 RMB'000 (Restated)
Carrying amounts of the above borrowings are repayable:		
Within one year	**1,658,026**	639,212
More than one year, but not exceeding two years	**28,851**	43,026
More than two year, but not exceeding five years	**114,559**	80,778
More than five years	**78,000**	36,318
	1,879,436	799,334
Less: Amounts due within one year shown under current liabilities	**(1,658,026)**	(639,212)
Amounts shown under non-current liabilities	**221,410**	160,122

The details of pledged assets to secure certain bank borrowings granted to the Group are disclosed in notes 18 and 19. As at 31 December 2020, secured other borrowings amounting to RMB11,741,000 were guaranteed by bills receivable (2019: nil).

34. BANK AND OTHER BORROWINGS (CONTINUED)

	2020 **RMB'000**	2019 RMB'000 (Restated)
Fixed rate borrowings	**1,759,418**	378,308
Floating rate borrowings	**120,018**	421,026
	1,879,436	799,334

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2020	2019
Effective interest rate		
– Fixed rate borrowings	**1.15%-5.17%**	0.29%-6.41%
– Floating rate borrowings	**2.64%-4.85%**	2.61%-4.03%

The Group's floating rate borrowings carried interest ranging from Loan Prime Rate ("LPR") less 0.9% to LPR plus 0.05% (2019: Hong Kong Inter-bank Offered Rate ("HIBOR") plus 1.2%).

At the end of the reporting period, the Group had the following undrawn borrowing facilities:

	2020 **RMB'000**	2019 RMB'000
Fixed rate		
– expiring within one year	**10,082,757**	4,070,879
– expiring beyond one year	**910,846**	906,091
	10,993,603	4,976,970

Included in bank borrowings is nil (2019: RMB 421,026,000), which is denominated in HK$, the currency other than the functional currency of the relevant group entities.

35. UNSECURED NOTES

	2020 RMB'000	2019 RMB'000 (Restated)
Carrying amount repayable	**3,237,316**	4,868,724
Less: Amounts due within one year shown under current liabilities	**(1,006,793)**	(4,868,724)
Amounts shown under non-current liabilities	**2,230,523**	–

On 13 June 2017, the Company completed the issuance of the second tranche of notes in an aggregate amount of RMB2,000,000,000, with a maturity of three years and coupon rate of 4.98% per annum. On 10 June 2020, the Company fully repaid the second tranche of notes.

On 14 October 2019, the Company issued the short-term commercial papers in an aggregate amount of RMB2,800,000,000, with a maturity of 270 days and coupon rate of 3.19% per annum. On 8 July 2020, the Company fully repaid the short-term commercial papers.

On 5 June 2020, the Company registered medium-term notes in an aggregate amount of RMB2,200,000,000, with a maturity of three years and coupon rate of 3.28% per annum. On 14 September 2020, the Company issued the short-term commercial papers in an aggregate amount of RMB1,000,000,000, with a maturity of 270 days and coupon rate of 2.60% per annum.

As at 31 December 2020, an aggregate amount of arrangement fee totaling RMB14,700,000 (2019: RMB5,657,000) was included in the balance of unsecured notes, and is released to profit or loss as a part of the finance costs using the effective interest method over the period of the unsecured notes.

36. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2020 '000	2019 '000	**2020 RMB'000**	2019 RMB'000
Authorised	Unlimited number of ordinary shares with no par value			
Issued and fully paid	**5,035,801**	5,035,801	**11,982,474**	11,982,474

37. RETIREMENT BENEFITS PLANS

Hong Kong

The Group participates in a defined contribution scheme under a Mandatory Provident Fund Scheme ("MPF Scheme"). For members of the MPF Scheme, both the Group and the employee contribute 5% of the employee's relevant income to the MPF Scheme according to the Hong Kong Mandatory Provident Fund Schemes Ordinance.

PRC

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

The total cost charged to profit or loss of RMB29,545,000 (2019: RMB98,405,000) for the year ended 31 December 2020, represents contributions paid to the retirement benefits scheme by the Group.

38. ACQUISITIONS OF SUBSIDIARIES AND ASSETS

2020

(a) Acquisition of Gansu Longzhong Pharmaceutical Co., Ltd. ("Longzhong Pharmaceutical")

On 9 July 2020, the Group acquired 51% of the equity interest in Longzhong Pharmaceutical at a cash consideration of RMB138,710,000 from an independent third party Gansu Provincial Hospital of Traditional Chinese Medicine. The Group entered into equity transfer agreement with the then shareholders of Longzhong Pharmaceutical on 30 December 2019, and obtained control of Longzhong Pharmaceutical on 9 July 2020. Longzhong Pharmaceutical is principally engaged in manufacture and sale of TCM granules, TCM finished drugs, and TCM decoction pieces business. This acquisition has been accounted for using the purchase method.

Consideration transferred

	RMB'000
Cash	138,710

38. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2020 (continued)

(a) Acquisition of Gansu Longzhong Pharmaceutical Co., Ltd. ("Longzhong Pharmaceutical") (continued)

Fair values of assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	235,886
Right-of-use assets	22,899
Deferred tax assets	3,553
Inventories	9,701
Trade and other receivables	5
Bank balances and cash	66
Trade and other payables	(110)
	272,000
Consideration transferred	138,710
Plus: Non-controlling interests	133,290
Less: Fair value of identifiable net assets acquired	(272,000)
Goodwill arising on acquisition	–

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	138,710
Less: Deposits paid in the prior year for acquisition of a subsidiary	(40,000)
Less: Bank balances and cash acquired	(66)
	98,644

Acquisition-related costs are not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

38. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2020 (continued)

(a) Acquisition of Gansu Longzhong Pharmaceutical Co., Ltd. ("Longzhong Pharmaceutical") (continued)

Impact of acquisition on the results of the Group

During the year ended 31 December 2020, Longzhong Pharmaceutical contributed RMB 7,234,000 and RMB6,950,000 to the Group's revenue and losses, respectively.

The acquisition of Longzhong Pharmaceutical was completed on 9 July 2020. The impact to the Group's revenue and profit are insignificant had the acquisition of Longzhong Pharmaceutical been completed on 1 January 2020.

(b) Acquisition of Hubei Sinopharm Zhonglian Pharmaceutical Co., Ltd. ("Hubei Zhonglian")

On 28 August 2020, the Group acquired 100% of the equity interest in Hubei Zhonglian at a cash consideration of RMB5,536,000 from independent third parties. The Group entered into equity transfer agreement with the then shareholders on 26 July 2020, and obtained control of Hubei Zhonglian on 28 August 2020. Hubei Zhonglian is principally engaged in wholesale of traditional Chinese medicine materials, Chinese herbal pieces with Good Supply Practice certificate. This acquisition has been accounted for using the purchase method.

Consideration transferred

	RMB'000
Cash	5,536

Fair values of assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	239
Deferred tax assets	432
Inventories	4,228
Trade and other receivables	6,608
Bank balances and cash	1,247
Trade and other payables	(7,218)
	5,536
Consideration transferred	5,536
Less: Fair value of identifiable net assets acquired	(5,536)
Goodwill arising on acquisition	–

38. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2020 (continued)

(b) Acquisition of Hubei Sinopharm Zhonglian Pharmaceutical Co., Ltd. ("Hubei Zhonglian") (continued)

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	5,536
Consideration payable	(2,168)
Less: Deposits paid in the prior year for acquisition of a subsidiary	(600)
Less: Bank balances and cash acquired	(1,247)
	1,521

Acquisition-related costs are not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

During the year ended 31 December 2020 Hubei Zhonglian contributed RMB11,214,000 and RMB1,498,000 to the Group's revenue and profit, respectively.

The acquisition of Hubei Zhonglian was completed on 28 August 2020. The impact to the Group's revenue and profit are insignificant had the acquisition of Hubei Zhonglian been completed on 1 January 2020.

38. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2019

(a) Acquisition of Longxiyifang Pharmaceutical

On 28 February 2019, the Group acquired 100% of the equity interest of Longxiyifang Pharmaceutical Co., Ltd. ("Longxiyifang Pharmaceutical") at a cash consideration of RMB3,767,000 from an independent third party. The Group entered into equity transfer agreement with the then shareholders on 18 January 2019, and obtained control of Longxiyifang Pharmaceutical on 28 February 2019. Longxiyifang Pharmaceutical principally engaged in wholesale of traditional Chinese medicine with GSP certificate. This acquisition has been accounted for using the purchase method.

Consideration transferred

	RMB'000
Cash	3,767

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	66
Other intangible assets	497
Inventories	33
Trade and other receivables	14
Bank balances and cash	3,381
Trade and other payables	(224)
	3,767
Consideration transferred	3,767
Less: Fair value of identifiable net assets acquired	(3,767)
Goodwill arising on acquisition	–

38. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2019 (continued)

(a) Acquisition of Longxiyifang Pharmaceutical (continued)

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	3,767
Less: Bank balances and cash acquired	(3,381)
	386

Acquisition-related costs were not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

During the year ended 31 December 2019, Longxiyifang Pharmaceutical contributed RMB11,653,000 and RMB312,000 to the Group's revenue and profits, respectively.

The acquisition of Longxiyifang Pharmaceutical was completed on 28 February 2019. The impact to the Group's revenue and profit are insignificant had the acquisition of Longxiyifang Pharmaceutical been completed on 1 January 2019.

38. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2019 (continued)

(b) Acquisition of Shanxi Guoxin

On 17 October 2019, the Group acquired 51% of the equity interest of Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd. ("Shanxi Guoxin") at a cash consideration of RMB55,348,000 from an independent third party. On the date of acquisition, Shanxi Guoxin did not engage in any business activities but only have leasehold land which is located in Shanxi Province of the PRC. The Group intended to use of the leasehold land to expand the pharmaceutical business.

In the opinion of the directors of the Company, the acquisition does not constitute business combination in accordance with HKFRS 3 *Business Combinations* and as such, the acquisition has been accounted for as acquisition of assets.

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	336
Right-of-use assets	65,320
Other intangible assets	22
Inventories	20
Trade and other receivables	6,359
Bank balances and cash	57,881
Trade and other payables	(21,408)
	108,530
Capital injection	55,348
Plus: Non-controlling interests	53,182
	108,530

Net cash outflow arising on acquisition

	RMB'000
Capital injection	55,348
Less: Bank balances and cash acquired	(57,881)
	(2,533)

39. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	**13,994**	12,013
Within a period of more than one year but not more than two years	**12,090**	12,180
Within a period of more than two years but not more than five years	**37,823**	47,959
Within a period of more than five years	**40,048**	41,966
	103,955	114,118
Less: Amount due for settlement with 12 months shown under current liabilities	**13,994**	12,013
Amount due for settlement after 12 months shown under non-current liabilities	**89,961**	102,105

The weighted average incremental borrowing rate applied to lease liabilities is 4.89% (2019:4.90%).

40. OPERATING LEASES

The Group as lessor

All of the properties held for rental purposes have committed lessees for the next 9 years.

Minimum lease payments receivable on leases are as follows:

	2020 RMB'000	2019 RMB'000
Within one year	**8,681**	620
In the second year	**3,314**	121
In the third year	**3,255**	96
In the fourth year	**1,968**	96
In the fifth year	**1,981**	–
After the fifth year	**5,805**	–
	25,004	933

41. CAPITAL COMMITMENTS

	2020 **RMB'000**	2019 RMB'000
Contracted but not provided for in the consolidated financial statements		
– Investments in PRC entities (note a)	**640,000**	640,000
– Acquisition of a subsidiary (note b)	**–**	100,490
- Acquisition of other intangible assets	**100,000**	–
– Acquisition of property, plant and equipment	**387,450**	507,360
	1,127,450	1,247,850

Notes:

(a) Pursuant to the cooperation agreement entered into by the Group, Foshan Health Development Co., Ltd. and Foshan Geriatric Hospital of Traditional Chinese Medicines Co., Ltd. on 13 January 2016, and a subsequent agreement entered by the Group and Baoli Huanan Industrial Co., Ltd. on 29 December 2016, the parties agreed to form two companies which are principally engaged in the provision of general hospital services, investments in medical industry and provision of hospital management consultancy services. The registered capital of these companies has not yet been paid up to the date of the consolidated financial statements of the Group.

(b) Pursuant to the investment agreements entered into by the Group and Gansu Provincial Hospital of traditional Chinese medicine, the shareholder of Longzhong Pharmaceutical on 30 December 2019, the Group would acquire the 51% equity interest of Longzhong Pharmaceutical at a consideration of RMB138,710,000. The Group has already paid the deposit of RMB40,000,000 as at 31 December 2019. The Group has already paid the fully amount of consideration in 2020 and the relevant regulatory approval procedures had been completed. Details of the acquisition please refer to note 38(a).

42. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt, which includes bank and other borrowings, lease liabilities and unsecured notes disclosed in notes 34, 35 and 39 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity.

42. CAPITAL RISK MANAGEMENT (CONTINUED)

The adjusted debt-to-equity ratios at 31 December 2020 and 2019 are as follows:

	2020 **RMB'000**	2019 RMB'000 (Restated)
Current liabilities:		
Bank and other borrowings	**1,658,026**	639,212
Unsecured notes-due within one year	**1,006,793**	4,868,724
	2,664,819	5,507,936
Non-current liabilities:		
Bank and other borrowings	**221,410**	160,122
Unsecured notes-due after one year	**2,230,523**	–
	2,451,933	160,122
Total debt	**5,116,752**	5,668,058
Less: Cash and cash equivalents	**(3,185,627)**	(5,046,024)
Adjusted net debt	**1,931,125**	622,034
Total equity	**20,896,421**	19,050,725
Adjusted net debt-to-equity ratio	**9%**	3%

The Group is not subject to externally imposed capital requirements except for financial covenants relating to certain of the banking facilities of the Group. The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

43. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at FVTPL	–	72,800
Financial assets at amortised cost	**8,435,414**	9,060,289
Debt instruments at FVTOCI	**1,383,732**	1,111,319
Financial liabilities at amortised cost	**8,539,808**	9,964,256

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, debt instruments at FVTOCI, time deposits, pledged bank deposits, bank balances and cash, trade and other payables, lease liabilities, unsecured notes and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than RMB, which are mainly other receivables, bank balances and cash, other payables, and bank and other borrowings of the Group, at the end of the reporting period are as follows:

	2020		2019	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
HK$	**23,037**	**1,306**	31,474	423,364
US$	**13,554**	–	11,683	–

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group manage the foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have a foreign exchange hedging policy. Management will consider hedging foreign currency exposure should the need arise.

Sensitivity analysis

The sensitivity analysis includes outstanding HK$ and US$ denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates. If the RMB strengthens/weakens 5% (2019: 5%) against HK$ and US$, the post-tax profit of the Group would decrease/increase by RMB1,034,000 and decrease/increase by RMB583,000, respectively (2019: increase/decrease by RMB19,715,000 and decrease/increase by RMB503,000).

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and unsecured notes. The Group is exposed to cash flow interest rate risk in relation to the floating rate borrowings. The Group does not have any interest rate hedging policy. However, the management monitors the related interest rate risk exposure closely and will consider hedging the interest rate risk exposure should the need arise.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. As listed in note 34, several of the Group's HIBOR bank loans may be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

The Group's pledged bank deposits and bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate. The management considers the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are mainly within short maturity period.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate profile

The following table details the interest rate profile of the Group's total bank borrowings and unsecured notes at the end of the reporting period.

	2020		2019	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000 (Restated)
Fixed rate borrowings:				
Bank and other borrowings	**2.50%**	**1,759,418**	3.92%	378,308
Unsecured notes	**3.58%**	**3,237,316**	4.03%	4,868,724
		4,996,734		5,247,032
Floating rate borrowings:				
Bank and other borrowings	**3.82%**	**120,018**	3.68%	421,026
Total bank and other borrowings and unsecured note		**5,116,752**		5,668,058
Net fixed rate borrowings as a percentage of total bank borrowings and unsecured notes		**97.7%**		92.6%

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and floating rate borrowings. The analysis is prepared assuming that those balances outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis point for bank balances increase or decrease and a 50 basis points for borrowings increase or decrease which represents the management's assessment of the reasonably possible charge in interest rates is used.

If the interest rate on floating rate borrowings had been 50 basis points (2019:50 basis points) higher/lower and all other variables were held constant, the post-tax profit of the Group would decrease/increase by RMB85,000 (2019: decrease/increase by RMB2,105,000) for the year ended 31 December 2020.

If interest rates on floating rate bank balances had been 10 basis points higher/lower and all other variables were held constant, post-tax profit of the Group would increase/decrease by RMB3,006,000 (2019: increase/decrease by RMB4,933,000) for the year ended 31 December 2020.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk and impairment assessment

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Before accepting any new customer, the management of the Group carries out researches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group only accepts bills issued or guaranteed by reputable PRC. In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. The Group performs impairment test assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix.

The credit risk on liquid funds is limited because the counterparties are state-owned banks and banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and different regions of the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	The counterparty has a relatively high risk of default or repays after due date but usually settle in full within the year	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below details the credit risk exposures of the Group's trade and bills receivables and other receivables, which are subject to ECL assessment:

	Notes	Internal credit rating	12-month or lifetime ECL	2020 Gross carrying amount		2019 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Debt instruments at FVTOCI							
Bills receivables	28	note ii	Lifetime ECL (not credit-impaired)	1,383,732	1,383,732	1,111,319	1,111,319
Financial assets at amortised cost							
Other receivables	24	note i	12m ECL	104,179		128,335	
			Lifetime ECL (credit-impaired)	33,107	137,286	23,996	152,331
Trade receivables	24	note ii	Lifetime ECL (provision matrix)	4,635,903		2,994,116	
			Lifetime ECL (credit-impaired)	4,972	4,640,875	7,510	3,001,626

Notes:

i. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. The Group considered the other receivables as credit-impaired on the reporting date once they are past due.

	2020			2019		
	Past due RMB'000	**Not past due RMB'000**	**Total RMB'000**	Past due RMB'000	Not past due RMB'000	Total RMB'000
Other receivables	**33,107**	**104,179**	**137,286**	23,996	128,335	152,331

ii. For trade receivables, debt instruments at FVTOCI, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors credit-impaired, the Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

For bank balances and cash, time deposits and pledged bank deposits, the management considered the credit risk has not increased significantly since the initial recognition. According to the historical observed default rates of these debtors, the average loss rate is negligible.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and loss allowance for trade receivables which are assessed collectively based on provision matrix as at 31 December 2020 within lifetime ECL (not credit-impaired). As at 31 December 2020, the credit-impaired debtors with gross carrying amounts of RMB4,972,000 (2019: RMB7,510,000) were assessed individually.

	2020			2019		
Internal credit rating	**Average loss rate**	**Gross carrying amount RMB'000**	**Impairment loss allowance RMB'000**	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Low risk	**0.31%**	**3,366,831**	**10,283**	0.48%	2,155,032	10,289
Watch list	**3.79%**	**1,204,498**	**45,673**	3.27%	786,592	25,742
Doubtful	**42.14%**	**64,574**	**27,210**	22.15%	52,492	11,632
		4,635,903	**83,166**		2,994,116	47,663

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

There is no change in estimation techniques or significant assumptions made in relation to the measurement of ECL during the current year.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	34,658	15,735	50,393
– Transfer to credit-impaired	(3,247)	3,247	–
– Impairment losses recognised	15,625	–	15,625
– Impairment losses reversed	(22,250)	–	(22,250)
– Write-offs*	–	(11,472)	(11,472)
New financial assets originated			
– Impairment losses recognised	22,877	–	22,877
As at 31 December 2019	47,663	7,510	55,173
– Transfer to credit-impaired	(3,361)	3,361	–
– Impairment losses recognised	55,193	1,594	56,787
– Impairment losses reversed	(45,536)	–	(45,536)
– Write-offs*	–	(7,493)	(7,493)
New financial assets originated			
– Impairment losses recognised	29,207	–	29,207
At 31 December 2020	83,166	4,972	88,138

* The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following tables shows reconciliation of loss allowances that has been recognised for other receivables.

	12m ECL RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	3,137	27,390	30,527
– Impairment losses recognised	308	–	308
– Impairment losses reversed	–	(981)	(981)
– Write-offs	–	(2,413)	(2,413)
New financial assets originated			
– Impairment losses recognised	855	–	855
At 31 December 2019	4,300	23,996	28,296
– Transfer to credit-impaired	(3,445)	3,445	–
– Impairment losses recognised	34	12,251	12,285
– Impairment losses reversed	–	–	–
– Write-offs	–	(6,585)	(6,585)
New financial assets originated			
– Impairment losses recognised	577	–	577
At 31 December 2020	1,466	33,107	34,573

The following tables shows reconciliation of loss allowances that has been recognised for debt instruments at FVTOCI.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

	Lifetime ECL (not-credit-impaired) RMB'000
As at 1 January 2019	197
– Impairment losses reversed	(197)
New financial assets originated	
– Impairment losses recognised	1,772
At 31 December 2019	1,772
– Impairment losses reversed	(1,772)
New financial assets originated	
– Impairment losses recognised	2,177
At 31 December 2020	2,177

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period and the earliest date the Group can be required to pay:

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average effective interest rate RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
31 December 2020						
Trade and other payables	–	**3,319,101**	–	–	**3,319,101**	**3,319,101**
Floating rate bank borrowings	**3.82%**	**12,590**	**88,838**	**49,850**	**151,278**	**120,018**
Fixed rate bank borrowings	**2.50%**	**1,674,973**	**86,516**	**35,140**	**1,796,629**	**1,759,418**
RMB1,000,000,000 notes carries fixed coupon rate of 2.60% per annum	**2.80%**	**1,018,421**	–	–	**1,018,421**	**1,006,793**
RMB2,200,000,000 notes carries fixed coupon rate of 3.28% per annum	**3.50%**	**72,160**	**2,335,756**	–	**2,407,916**	**2,230,523**
Lease liabilities	**4.89%**	**18,698**	**65,382**	**41,730**	**125,810**	**103,955**
		6,115,943	**2,576,492**	**126,720**	**8,819,155**	**8,539,808**

	Weighted average effective interest rate RMB'000	Within 1 year or on demand RMB'000 (Restated)	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000 (Restated)	Total carrying amount RMB'000 (Restated)
31 December 2019						
Trade and other payables	–	4,182,080	–	–	4,182,080	4,182,080
Floating rate bank borrowings	3.68%	427,667	–	–	427,667	421,026
Fixed rate bank borrowings	3.92%	229,710	137,100	39,523	406,333	378,308
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum	5.21%	2,089,044	–	–	2,089,044	2,016,915
RMB2,800,000,000 notes carries fixed coupon rate of 3.19% per annum	3.40%	2,901,921	–	–	2,901,921	2,851,809
Lease liabilities	4.90%	16,985	65,784	58,282	141,051	114,118
		9,847,407	202,884	97,805	10,148,096	9,964,256

44. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	**Fair value**		**Fair value hierarchy**	**Valuation techniques(s) and key input(s)**
	2020 RMB'000	**2019 RMB'000**		
Financial assets at FVTPL				
Structured bank deposits	**–**	**72,800**	Level 3	Expected yields of underlying investments in and commodities, bonds and funds invested by bank at a discount rate that reflects the credit risk of the bank
Financial assets at FVTOCI				
Bills receivables	**1,383,732**	**1,111,319**	Level 3	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period

There were no transfers between Level 1 and 3 during both years.

Except as disclosed below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

Unsecured notes

	2020 RMB'000	2019 RMB'000
Carrying amount	**3,237,316**	4,868,724
Fair value under level 2 fair value hierarchy	**3,175,702**	4,816,885

The fair values of the financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Company.

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities RMB'000	Bank and other borrowings RMB'000	Unsecured notes RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Dividend payable to non-controling interests RMB'000	Total RMB'000
At 1 January 2019	–	1,643,443	4,490,065	67,528	1,366	77,316	6,279,718
Adjustments upon application of HKFRS 16	43,043	–	–	–	–	–	43,043
At 1 January 2019 (restated)	43,043	1,643,443	4,490,065	67,528	1,366	77,316	6,322,761
Financing cash flows	(17,504)	(854,233)	300,000	(312,685)	(502,460)	(35,880)	(1,422,762)
Net foreign exchange loss	–	9,212	–	–	–	–	9,212
Dividend recognised	–	–	–	–	502,506	76,110	578,616
New leases entered	88,579	–	–	–	–	–	88,579
Interest expense	–	–	4,278	320,450	–	–	324,728
At 31 December 2019	114,118	798,422	4,794,343	75,293	1,412	117,546	5,901,134
Adjustments to reclassify interest payable (note 51)	–	912	74,381	(75,293)	–	–	–
At 1 January 2020 (restated)	**114,118**	**799,334**	**4,868,724**	**–**	**1,412**	**117,546**	**5,901,134**
Financing cash flows	**(16,625)**	**1,016,796**	**(1,780,192)**	**–**	**(216,346)**	**(113,899)**	**(1,110,266)**
Net foreign exchange loss	**–**	**3,008**	**–**	**–**	**(3,088)**	**–**	**(80)**
Dividend recognised	**–**	**–**	**–**	**–**	**219,329**	**60,661**	**279,990**
New leases entered	**2,204**	**–**	**–**	**–**	**–**	**–**	**2,204**
Rent concession related to COVID-19	**(781)**	**–**	**–**	**–**	**–**	**–**	**(781)**
Interest expense	**5,039**	**60,298**	**148,784**	**–**	**–**	**–**	**214,121**
At 31 December 2020	**103,955**	**1,879,436**	**3,237,316**	**–**	**1,307**	**64,308**	**5,286,322**

46. RELATED PARTY TRANSACTIONS

Key management remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employees as disclosed in notes 13 and 14, is as follows:

	2020 **RMB'000**	2019 RMB'000
Short-term employee benefits	**12,604**	12,455
Post-employments benefits	**195**	311
	12,799	12,766

Other related party transactions

Name of related party	**Relationship**
CNPGC	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group
Ping An Bank	Fellow subsidiary of a substantial shareholder

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

	2020 **RMB'000**	2019 RMB'000
(i) Sales of finished goods to CNPGC's subsidiaries other than the Group	**840,246**	827,244
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	**34,632**	10,764
(iii) Other purchase from CNPGC's subsidiaries other than the Group	**7,874**	–
(iv) Rental income from CNPGC's subsidiaries other than the Group	**3,397**	2,354
(v) Interest income from CNPGC's subsidiaries other than the Group	**813**	2,215
(vi) Interest income from Ping An Bank	**6,831**	–
(vii) Interest expense to CNPGC's subsidiaries other than the Group	**4,806**	–
(viii) Interest expense to Ping An Bank	**499**	–

46. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

Particulars of significant balances between the Group and the related parties are as follows:

	2020 RMB'000	2019 RMB'000
(i) Trade and other receivable balances due from CNPGC's subsidiaries other than the Group as included in trade and other receivable balances set out in note 24	**482,930**	342,788
(ii) Trade and other payable balances due to CNPGC's subsidiaries other than the Group as included in trade and other payable balances set out in note 30	**21,467**	9,014
(iii) Time deposits and bank deposits placed in CNPGC's subsidiaries other than the Group as included in bank balances and cash set out in note 29	**591,003**	593,043
(iv) Bank deposits placed in Ping An Bank as included in bank balances and cash set out in note 29	**172,634**	–
(v) Bank loans from Ping An Bank as included in bank and other borrowings set out in note 34	**40,000**	–

46. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

The above related party transactions (i), (ii) and related party balances (iii), (iv) constitute connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Continuing Connected transactions" of the section headed "Report of the Directors" of the annual report.

Transactions/balances with other state-controlled entities

The Group itself is part of a large group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("stated-controlled entities") in the ordinary course of business. The directors of the Company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counterparty is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current year in which the directors of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) General information of subsidiaries

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2020	2019	**2020**	2019	
Directly held the Company						
Jiangyin Tiangjiang#	The PRC	**RMB394,555,556**	RMB394,555,556	**87.3%**	87.3%	Development, manufacture and sale of TCM granules
Indirectly held the Company						
Dezhong#	The PRC	**USD6,460,000**	USD6,460,000	**98.3%**	98.3%	Development, manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing#	The PRC	**USD7,526,100**	USD7,526,100	**98%**	98%	Development, manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World*	The PRC	**USD172,640,000**	USD172,640,000	**100%**	100%	Development, manufacture and sale of pharmaceutical products and investment holding
Luya#	The PRC	**RMB24,529,300**	RMB24,529,300	**100%**	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices^	The PRC	**RMB885,000,000**	RMB595,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Feng Liao Xing Zhongshan Pharmaceutical Company Limited^	The PRC	**RMB10,000,000**	RMB10,000,000	**100%**	100%	– Retail of Pharmaceuticals and decoction
Feng Liao Xing Pharmaceutical Equipment Company Limited^	The PRC	**RMB1,000,000**	RMB1,000,000	**55%**	55%	Maintenance, manufacture, and sale of TCM equipment
Winteam Sales^	The PRC	**RMB260,000,000**	RMB260,000,000	**100%**	100%	Trading of pharmaceutical products

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2020	2019	**2020**	2019	
Indirectly held the Company (continued)						
Sinopharm Group Feng Liao Xing Traditional Chinese Medicine Health Industry Company Limited^	The PRC	**RMB47,000,000**	RMB47,000,000	**100%**	100%	Investment of the TCM health industry
Guizhou Tongjitang Pharmacy Chain^	The PRC	**RMB5,000,000**	RMB5,000,000	**60%**	60%	Retail of pharmaceuticals
Huayi^	The PRC	**RMB139,000,000**	RMB139,000,000	**100%**	100%	Development, manufacture, and sale of TCM products
Shanxi Huamiao Pharmaceutical Company Limited^	The PRC	**RMB5,800,000**	RMB2,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Jilin Baiqi Pharmaceutical Company Limited^	The PRC	**RMB180,450,000**	RMB180,450,000	**65%**	65%	Development, manufacture, and sale of TCM products
Shanghai Tongjitang^	The PRC	**RMB80,000,000**	RMB80,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Tongjitang Herbal^	The PRC	**RMB60,000,000**	RMB60,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Shandong Zhongping Pharmaceutical Company Limited^~	The PRC	**RMB292,000,000**	RMB188,000,000	**44.5%**	44.5%	Manufacture of TCM Products
Liaoning Tianjiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB2,500,000**	RMB2,000,000	**87.3%**	87.3%	Development, manufacture, and sale of TCM products
Shanxi Guoxin^~	The PRC	**RMB 102,040,800**	RMB 102,040,800	**44.5%**	44.5%	Development, manufacture, and sale of TCM products
Lixian Dahuang Technology and Science Company Limited^	The PRC	**RMB 49,978,500**	RMB 49,978,500	**74.2%**	74.2%	Development, manufacture, and sale of TCM decoction products

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2020	2019	**2020**	2019	
Indirectly held the Company (continued)						
Xihebanxia Technology and Science Company Limited^~	The PRC	**RMB 99,870,000**	RMB 99,870,000	**44.5%**	44.5%	Development, manufacture, and sale of TCM decoction products
Jiangxi Yifang Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB150,000,000**	RMB139,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM
Jiangxi Fanglian Pharmaceutical Company Limited^	The PRC	**RMB5,000,000**	RMB2,000,000	**52.4%**	52.4%	Sale of TCM products
Heilongjiang Sinopharm Group Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB60,000,000**	RMB60,000,000	**52.4%**	52.4%	Manufacture and sale of TCM
Jingfang^	The PRC	**RMB39,000,000**	RMB39,000,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
Pulante^	The PRC	**RMB42,520,000**	RMB27,520,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
GD Yifang^	The PRC	**RMB364,491,680**	RMB364,491,680	**87.3%**	87.3%	Development, manufacture, and sale of TCM granules
Longxi Yifang^	The PRC	**RMB100,000,000**	RMB30,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Longxiyifang Pharmaceutical Company Limited^	The PRC	**RMB5,000,000**	RMB4,290,000	**87.3%**	87.3%	Sale of TCM products
Tianxiang^	The PRC	**RMB110,000,000**	RMB110,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2020	2019	**2020**	2019	
Indirectly held the Company (continued)						
Jiangyin Tianjiang Chinese Medical Clinics Ltd. ("TCM Clinics")^ ~	The PRC	**RMB11,500,000**	RMB11,500,000	**44.5%**	44.5%	Retail of pharmaceuticals and provision of TCM consultation services
Chongqing Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB190,000,000**	RMB190,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Yunnan Tianjiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB200,000,000**	RMB194,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM products
Sichuan Tianxiong^	The PRC	**RMB150,500,000**	RMB150,500,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Longxixian Fengliaoxing^	The PRC	**RMB50,000,000**	RMB50,000,000	**100%**	100%	Manufacture and sale of TCM decoction product
Shandong Yifang Pharmaceutical Company Limited^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Zhejiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Yifang Pingkang^~	The PRC	**RMB150,000,000**	RMB150,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM products
Shaanxi Jitaining Pharmaceutical Company Limited ^~	The PRC	**RMB458,700**	RMB30,000	**44.5%**	44.5%	Sale of TCM products
Hunan Yifang^	The PRC	**RMB200,000,000**	RMB200,000,000	**79.4%**	79.4%	Development, manufacture and sale of TCM products

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2020	2019	**2020**	2019	
Indirectly held the Company (continued)						
Changde Yifan Pharmaceutical Company Limited^	The PRC	**RMB5,000,000**	RMB3,000,000	**79.4%**	79.4%	Sale of TCM products
Sichuan Tianhao^	The PRC	**RMB10,000,000**	RMB10,000,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Guangxi Yifang Tianjiang Pharmaceutical Company Limited^~	The PRC	**RMB200,000,000**	RMB133,150,000	**44.5 %**	44.5%	Development, manufacture and sale of TCM
Beijing Huamiao^	The PRC	**RMB174,383,898**	RMB174,383,898	**100 %**	100%	Manufacture and sale of TCM decoction products
Heilongjiang Sinopharm^	The PRC	**RMB16,000,000**	RMB16,000,000	**100 %**	100%	Sale of medical herbs
Sichuan Jiangyou^	The PRC	**RMB54,200,000**	RMB54,200,000	**100%**	100%	Manufacture and sale of TCM decoction products
Anhui Fengliaoxing^	The PRC	**RMB28,595,300**	RMB28,595,300	**51%**	51%	Manufacture and sale of TCM decoction products
Jiangkang Pharmaceutical^~	The PRC	**RMB70,000,000**	RMB70,000,000	**44.5%**	44.5%	Manufacture and sale of TCM products
Sichuan Sinopharm Group Tianjiang Pharmaceutical Company Limited ^~	The PRC	**RMB233,061,200**	RMB153,061,200	**53.2%**	44.5%	Development, manufacture and sale of TCM
Fujian Chengtian Pharmaceucital^~	The PRC	**RMB136,500,000**	RMB136,500,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Heilongjiang Sinopharm Group Shuanglanxing Pharmaceutical Company Limited ^~	The PRC	**RMB89,981,200**	RMB89,981,200	**44.5%**	44.5%	Development, manufacture and sale of TCM

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2020	2019	**2020**	2019	
Indirectly held the Company (continued)						
Guangdong Jiuan Pharmaceutical Marketing Service Company Limited^	The PRC	**RMB30,000,000**	RMB30,000,000	**100%**	100%	Marketing, advertising and consulting of TCM
Tongjitang Pharmaceutical*	The PRC	**RMB249,759,458**	RMB249,759,458	**100%**	100%	Development, manufacture, marketing and sale of TCM products
Zhonglian Pharmaceutical^~	The PRC	**RMB622,280,661**	RMB622,280,661	**44.5%**	44.5%	Development, manufacture and sale of TCM
Anhui Zhongping Warehouse Logistics Co., Ltd.^	The PRC	**RMB100,000,000**	RMB100,000,000	**100%**	100%	Provide logistics and warehouse services
Foshan Nanhai Golden Footwear Company Limited ^	The PRC	**RMB137,690,000**	RMB137,690,000	**100%**	100%	Property leasing
Longzhong Pharmaceutical^~	The PRC	**RMB50,000,000**	–	**44.5%**	–	Manufacture and sale of TCM decoction products

* These companies were established in the PRC in the form of wholly Foreign-owned Enterprises.
\# These companies were established in the PRC in the form of sino-foreign Equity Joint Ventures.
^ These companies were established in the PRC in the form of domestic enterprises.
~ 51% directly or indirectly controlled by Jiangyin Tiangjiang which is a 87.3% owned subsidiary of the Group.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Jiangyin Tianjiang Group (note)	The PRC	**12.7%**	12.7%	**195,261**	181,373	**2,625,165**	2,206,284
Individually immaterial subsidiaries with non-controlling interests				**2,128**	3,810	**207,170**	221,026
				197,389	185,183	**2,832,335**	2,427,310

Note: The amounts have been adjusted for inter group elimination which primarily represent the goodwill and other intangible assets arising from the acquisition of the Jiangying Tianjiang Group.

Summarised consolidated financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below.

The following table lists out the information relating to Jiangyin Tianjiang Group, the only sub-group of the Group which has material non-controlling interest as at 31 December 2020.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

Jiangyin Tianjiang Group

	2020 **RMB'000**	2019 RMB'000
Current assets	**12,952,137**	11,534,104
Non-current assets	**10,895,667**	9,975,793
Current liabilities	**(5,286,793)**	(5,215,273)
Non-current liabilities	**(5,213,092)**	(4,483,174)
Net equity (Note)	**13,347,919**	11,811,450
Equity attributable to owners of Jiangyin Tianjiang Group	**12,282,651**	11,002,481
Non-controlling interests of Jiangyin Tianjiang Group	**1,065,268**	808,969

Note: The net equity includes fair value adjustments on properties, intangible assets and related deferred taxation arising from business combination amounting to RMB3,959,067,000 (2019: RMB4,044,482,000).

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

Jiangyin Tianjiang Group (continued)

	2020 **RMB'000**	2019 RMB'000
Revenue	**11,217,000**	10,100,832
Expenses	**(9,491,477)**	(8,491,477)
Profit and total comprehensive income for the year (Note)	**1,725,523**	1,609,355
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group	**1,752,878**	1,635,718
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang Group	**(27,355)**	(26,363)
Total comprehensive income for the year	**1,725,523**	1,609,355
Dividends declared to non-controlling interests	**60,034**	65,938
Net cash inflow from operating activities	**335,270**	1,411,601
Net cash outflow from investing activities	**(2,270,139)**	(553,979)
Net cash inflow (outflow) from financing activities	**739,126**	(1,573,558)
Net cash outflow	**(1,195,743)**	(715,936)

Note: The profit for the year includes adjustments for depreciation on properties and amortisation on intangible assets recognised upon the business combination amounting to RMB85,415,000 (2019: RMB111,093,000).

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**13,604,506**	13,604,506
Loans to subsidiaries (note a)	**4,251,729**	4,687,822
Property, plant and equipment	**1**	4
	17,856,236	18,292,332
CURRENT ASSETS		
Other receivables	**120**	136
Amounts due from subsidiaries (note b)	**396,077**	1,358,735
Bank balances and cash	**19,353**	13,359
	415,550	1,372,230
CURRENT LIABILITIES		
Trade and other payables	**22,373**	131,140
Amounts due to subsidiaries (note b)	**1,390,313**	1,248,185
Bank borrowings	**400,090**	421,026
Unsecured notes-due within one year	**1,006,793**	4,794,343
	2,819,569	6,594,694
NET CURRENT LIABILITIES	**(2,404,019)**	(5,222,464)
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,452,217**	13,069,868
NON-CURRENT LIABILITIES		
Unsecured notes-due after one year	**2,230,523**	–
Deferred tax liabilities	**19,331**	21,049
	2,249,854	21,049
NET ASSETS	**13,202,363**	13,048,819
CAPITAL AND RESERVES		
Share capital	**11,982,474**	11,982,474
Reserves (note c)	**1,219,889**	1,066,345
TOTAL EQUITY	**13,202,363**	13,048,819

Approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

WU Xian
Executive Director

WANG Xiaochun
Executive Director

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note a: The amounts are unsecured, interest bearing from 4.00% to 4.35% per annum (2019: 4.35%) and repayable in 2 to 3 years.

Note b: The amounts are unsecured and repayable on demand.

Note c: Movements in the Company's reserves

	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2019	813,199	274,142	1,087,341
Profit and total comprehensive income for the year	–	481,510	481,510
Dividends recognised as distribution (note 15)	–	(502,506)	(502,506)
At 31 December 2019	813,199	253,146	1,066,345
Profit and total comprehensive income for the year	–	372,873	372,873
Dividends recognised as distribution (note 15)	–	(219,329)	(219,329)
At 31 December 2020	813,199	406,690	1,219,889

All of the Company's accumulated profits is available for distribution to equity shareholders.

49. MAJOR NON-CASH TRANSACTION

During the current year, bills received by the Group from its customers with an aggregate amount of RMB16,067,000 (2019: RMB174,213,000) were endorsed for the settlement of payables for acquisition of property, plant and equipment.

50. CONTINGENT LIABILITIES

During the year, the Group endorsed certain bills receivables for the settlement of trade and other payables. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivables, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed bills receivables is low because all endorsed bills receivables are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed bills receivable at the end of the reporting period are as follows:

	2020 **RMB'000**	2019 RMB'000
Outstanding endorsed bills receivables with recourse	**223,214**	226,174

The outstanding endorsed bills receivables are aged within 180 days at the end of the reporting period. The directors of the Company consider that the carrying amounts of the endorsed bills receivables approximate their fair values.

51. RECLASSIFICATION OF COMPARATIVE FIGURES

The comparative amounts of the interest payables arising from bank and other borrowings and unsecured notes have been reclassified from trade and other payables to respective account balances to conform to the current year presentation and the details are set out as below:

	31 December 2019 RMB'000 (previously stated)	**Reclassifications** RMB'000	**31 December 2019** RMB'000 (as restated)
Trade and other payables	5,355,025	(75,293)	5,279,732
Bank and other borrowings (current)	638,300	912	639,212
Unsecured notes			
– due within one year	4,794,343	74,381	4,868,724