神威藥業
SHINEWAY

China Shineway Pharmaceutical Group Limited
中國神威藥業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2877

ANNUAL REPORT 2020

LEADING MODERN CHINESE MEDICINE
PROMOTING HEALTH INDUSTRY

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Chen Zhong

Independent non-executive Directors

Ms. Cheng Li
Prof. Luo Guoan
Mr. Cheung Chun Yue Anthony

Non-executive Directors

Mr. Zhou Wencheng
(appointed on 1 October 2020)

BOARD COMMITTEES

Audit Committee

Mr. Cheung Chun Yue Anthony *(Committee Chairman)*
Ms. Cheng Li
Prof. Luo Guoan

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Ms. Xin Yunxia
Mr. Cheung Chun Yue Anthony

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Prof. Luo Guoan
Mr. Cheung Chun Yue Anthony

Corporate Social Responsibility and Sustainability Committee

Mr. Cheung Chun Yue Anthony *(Committee Chairman)*
Ms. Xin Yunxia
Ms. Cheng Li
Prof. Luo Guoan

AUTHORISED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queenway
Hong Kong

REGISTERED OFFICE

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

CORPORATE INFORMATION

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The People's Republic of China ("PRC")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3109, 31/F, Central Plaza
18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3,
Building D, P.O. Box 1586,
Gardenia Court, Camana Bay,
Grand Cayman, KY1-1100, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited
Bank of China, Jin Zhu Xi Lu Branch Lhasa, Xizang
China Construction Bank, Luan Cheng Branch Shijiazhuang, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

2877 (Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

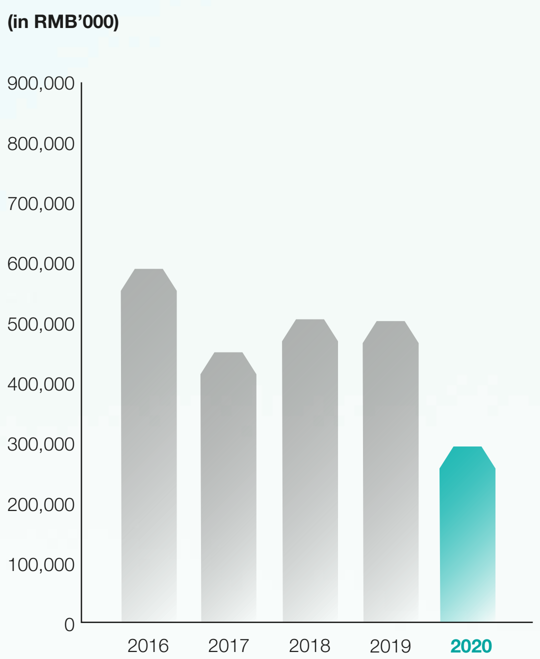
www.shineway.com.hk
www.shineway.com

FINANCIAL HIGHLIGHTS

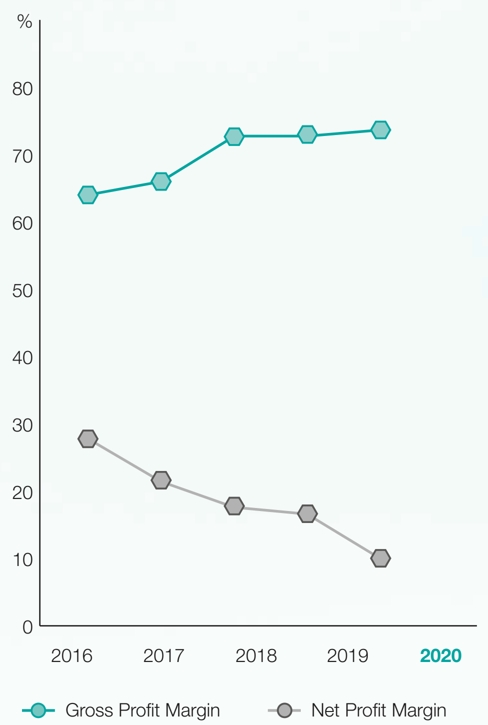
(in RMB'000)

	2016	2017	2018	2019	**2020**
RESULTS					
Turnover	1,993,379	1,919,608	2,570,196	2,705,996	**2,655,701**
Gross profit	1,286,495	1,267,084	1,876,047	1,981,565	**1,987,846**
Profit before taxation	695,254	587,822	669,130	642,772	**395,024**
Profit attributable to owners of the Company	589,196	451,553	505,876	503,150	**295,033**
Basic earnings per share	RMB0.71	RMB0.55	RMB0.62	RMB0.64	**RMB0.39**
Dividends	264,640	264,640	261,185	249,072	**241,472**
ASSETS AND LIABILITIES					
Total assets	6,465,262	6,665,113	6,731,791	7,131,341	**7,213,508**
Total liabilities	(838,589)	(844,158)	(966,010)	(1,354,414)	**1,419,326**
Total equity attributable the owners of the Company	5,626,673	5,820,955	5,765,781	5,776,927	**5,794,182**

Profit Attributable to Owners of the Company



Gross and Net Profit Margins



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

2020 was an extraordinary year full of unprecedented challenges. Since the beginning of coronavirus outbreak, the Group has been continually producing medications to supply healthcare frontlines for fighting against the epidemic and for assuring public health. We overcame impacts of significant slowdown of the industry due to the pandemic, and achieved overall sales of RMB2.66 billion, representing a slight decrease of only 1.9% as compared to last year. However, due to a one-time non-recurring impairment charge on the intangible assets, goodwill, and fixed assets of a wholly-owned subsidiary of the Group for an aggregate amount of approximately RMB229 million, the Group's reported net profit for 2020 had decreased by 41.4% as compared to last year. Without taking into the account of such impairment charge, the Group's net profit for 2020 would only decrease by 0.7%.

Looking back at our track records for the past decade, the Group's turnover and net profit had experienced negative growth for years, which was caused by various internal and external reasons. For that, we had undergone years of reformation with endeavour. In view of the current external business environment as well as the results of our reform, the Group believes that in 2021 we will be able to shake off the predicament of not achieving sustainable sales growth in the past and restore growth momentum.

First, the Chinese government has now placed Chinese medicine in a more prominent spot. With the continued promulgation of favourable policies to Chinese Medicine, the reformation and development of Chinese medicine are fostered with unprecedented efforts to guide the industry in making historical achievement. In recent months, after our government published the "the Opinions on Implementing the Promotion of the Inheritance and Innovative Development of Chinese Medicine" and "Several Policies for Accelerating the Characteristic Development of Chinese Medicine", it also issued the "Announcements on the Ending of Pilot Trial on TCM Formula Granules" immediately afterwards. The "Outline of the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives through the Year 2035" recently voted and passed by the National People's Congress also stipulated to attach equal importance to Chinese and western medicine and their complimentary advantages, to vigorously develop TCM industry, to strengthen the integration of Chinese and western medicine, and to promote Chinese medicine to the world. The Chinese medicine industry is currently ushering in the historic period of the right time, the right place, and with the people's consonance.

Over all these years, the Group has brought together plenty of superb product clusters. The Group now owns production licences of over 400 medications consisted of more than 30 exclusive products with proprietary intellectual property, spanning across 17 major product series in various therapeutic areas, including cardio-cerebrovascular, antiviral, orthopedics, pediatrics, gynecology, neurology, gastroenterology, ophthalmology, oncology and immunology medicine, and more than 600 TCM formula granule varieties. The Group has become one of the modern Chinese medicine enterprises with the most comprehensive genre of pharmaceutical products.

Riding on the advantages from our unique product lines and exclusive products, our strategies are to emphasize on the continuous enhancement of empirical research and clinical value of our products, as well as strengthening our product pipeline's growth and development. As we fortify our products and market specialization, we are also embracing for new trends including "Internet+", hierarchical diagnosis, and prescription outsourcing, and determined to further strengthen our ties with high-end hospitals, grass-root medical institutions, retail terminals as well as our online presence. At the same time, the Group will utilise innovative sales model to enhance effectiveness on our terminal coverage and capability on the administration and control of terminals. To seize the opportunity from rolling amendments of the National Drugs Reimbursement List/Essential Drugs List, the Group will make every effort to push forward our star product strategy which involves in-depth product re-development and undergo extensive evidence-based medical research on exclusive products so as to broaden their life cycles and expand their market opportunity.

CHAIRMAN'S STATEMENT

The Group has been actively establishing our position in the TCM formula granule industry since a decade ago. As the very first company running TCM formula granules pilot trial in Hebei Province and Yunnan Province and the sixth-ranked formula granule manufacturer in the nation, and along with the opening up of the nationwide market, the Group strives to continuously solidify our leading position in the market of Hebei Province, swiftly exploit and turn Yunnan Province into a mature market and complete the strategic enhancement of formula granule production capacity in full speed. Through establishing a solid ground and riding on the opportunity from the nationwide market opening, the Group will expedite the enrollment of our TCM formula granules into other provinces and accelerate the formation of our national network. We strive to rank among the top three of TCM formula granule industry of the nation after three years.

Meanwhile, the Group is also bolstering a digital marketing ecosystem to strengthen the sales and marketing of our entire business segments. Using "Internet+" to achieve the digitalized marketing transformation of our healthcare business, we are keen to strengthen the B2B, B2C, O2O sale models as well as our self- operated online flagship store. We will continue to apply innovative pharmaceutical marketing model and modern management. Our goal is to turn online sales to become one of the Group's main sales forces by 2023.

In terms of mid to long term development strategy, the Group will continuously strengthen research and development of strategic products. We will adhere to our focus on developing innovative medications, classic TCM prescriptions and health foods with leading national standard. The focal point will be on those that are highly recognized by the modern medical system, and those offering clinical advantages and unique characteristics in fields where Chinese medicine are superior, namely cardio-cerebrovascular diseases, pediatric diseases, oncology, orthopedic diseases, gynecological diseases and geriatric diseases. We are also keen to accelerate the pace of phase III clinical trials of Sailuotong Capsule, an innovative compound TCM, and the market launch of other new products.

The Chinese government is now pressing on the equal importance of both Chinese and Western medical treatments and the joint use of Chinese and Western medicines. The government approval of TCM injections to treat Covid-19 has fostered the prospect of future development in TCM injections products. The Group will put in our full effort to uphold the leading position of our TCM injection products by continuously investing in TCM injections clinical research, launching efficacy evaluation on TCM injections as well as boosting their clinical value. By leveraging the success in our safety re-evaluation on Shu Xie Ning Injection, Qing Kai Ling Injection and Shen Mai Injection and closely following the relevant country's policies, we are keen to collaborate with relevant authority in launching the "Proper Usage of TCM Injections Project" to promote the appropriate prescriptions of doctors at the grass-root level and orderly conduct efficacy research to broaden the market potential of our TCM injections.

Looking back at the past year, many outstanding employees of the Group had emerged with touching deeds. They overcame the pandemic and worked diligently and tirelessly to protect the supply of our products. They fully performed their duties, and endured difficulties to ensure quality and safety of our products as a mean to support front line healthcare personnel. Especially during the sudden outbreak this year, our management personnel and staff returned to their posts immediately. While following pandemic prevention and control guidelines, they worked overtime to manufacture medications required by the market. They had proactively shouldered their social responsibility by safeguarding medication supplies for the protection of our society. This kind of generous affection and commitment of Shineway's employees is worthy of our continued inheritance and upholding. Such achievements could only be obtained with the whole-hearted contributions by all our staff who were willing to ride out the difficult times together. Here, I would like to express my heartfelt gratitude and appreciation to all Shineway employees. Thank you all!

In 2021, using our "14th Five-Year" strategy as a guide, let's achieve outstanding results with resolute actions and begin the Group's new journey of great performance!

Li Zhenjiang
Chairman of the Board
Hong Kong, 30 March 2021

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL RESULTS HIGHLIGHTS

In 2020, the Group's turnover slightly decreased by 1.9% to RMB2,655,701,000 as compared with last year. This was mainly due to the drastic drop of inpatient and outpatient visits in the first six months of the year caused by the COVID-19 pandemic, resulting in a decrease in overall medical consumption. With the country's domestic pandemic prevention and control proven to be effective and everyday's life was getting back to normal, turnover in the third and fourth quarters of 2020 had gone up by 1.1% and 18.4% respectively as compared to the same period of last year.

The Group's gross profit margin for the year was 74.9%, representing a slight increase compared to 73.2% of last year. This was mainly attributable to the continuous increase of the proportion of profit contribution from products with higher gross profit margin.

Due to a one-time non-recurring impairment charge related to the intangible assets, goodwill, and property, plant and equipment of a wholly-owned subsidiary of the Group with an aggregate amount of RMB229,601,000 ("the Impairment Charge"), the Group's net profit for 2020 had decreased by 41.4% as compared to last year. Without taking into the account of the Impairment Charge, the Group's net profit for 2020 only decreased by 0.7%, calculated as follows:

	2019 RMB'000	**2020** **RMB'000**	**Year-on-year growth rate**
Net profit	503,150	**295,033**	-41.4%
The Impairment Charge	–	**229,601**	–
Deferred tax reversal related to the Impairment Charge	–	**(25,226)**	–
Net profit (before the Impairment Charge)	503,150	**499,408**	-0.7%
Net profit margin (before the Impairment Charge)	18.6%	**18.8%**	0.2pp
Earnings per share (before the Impairment Charge)	RMB64 cents	**RMB66 cents**	3.1%

The Group's net profit margin before the Impairment Charge was 18.8%, which was roughly the same as that of 18.6% of last year. Without taking into the account of the Impairment Charge, the Group's earnings per share for the year would be RMB66 cents, representing an increase of 3.1% as compared to last year.

As a result of the Impairment Charge, the Group expects that the amortization expense (net of deferred tax) starting from 2021 to 2024 will reduce by approximately RMB30,000,000 annually, leading to improvements of the Group's net profit margin and return on equity in these years.

As of 31 December 2020, as calculated based on total issued shares of the Company of 827,000,000 shares and after deducting bank loans of RMB370 million, net cash per share of the Group amounted to HK$5.6, and net assets per share amounted to HK$8.3.

The Group has proposed to pay final dividend amounted to RMB21 cents per share. Together with interim dividend of RMB11 cents per share, the total payout amounted to RMB32 cents and the Group's payout ratio for the year is 52.9% before the Impairment Charge.

MANAGEMENT DISCUSSION AND ANALYSIS

Resumption of growth in the fourth quarter

The Group's sales during the peak of the pandemic in the first quarter of 2020 was notably lower than that of the same period of last year. With the country's domestic pandemic prevention and control becoming effective, the impact of the pandemic on domestic medical consumption had gradually lessened. All dosage forms of the Group's products had resumed their growth in the fourth quarter of 2020. The table below shows the quarterly and annual growth rates for each product dosage form in 2020:

	Year-on-year growth rate in 2020					Full year Turnover RMB'000	Percentage of total turnover
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year		
Injection Products	-21.3%	-27.8%	-1.2%	15.6%	-10.1%	1,102,444	41.5%
Soft Capsule products	-4.1%	13.2%	-10.4%	20.1%	4.5%	462,090	17.4%
Granule products	-3.9%	-14.9%	-4.3%	27.8%	4.4%	405,960	15.3%
TCM Formula Granules	-12.6%	10.7%	25.4%	17.2%	10.8%	556,327	20.9%
Others dosage products	-25.7%	-11.1%	-20.4%	6.1%	-12.6%	128,880	4.9%
Oral products	-9.0%	4.1%	2.9%	20.4%	4.9%	1,553,257	58.5%
Total	-14.6%	-11.7%	1.1%	18.4%	-1.9%	2,655,701	100.0%

Affected by sharp decline in both inpatients and outpatients during the pandemic, sales of Shu Xie Ning Injection and Shen Mai Injection, which were mainly being used in hospitals, as well as sales of Qing Kai Ling Injection which was mostly used in grass-root medical institutions, recorded a decline in the first and second quarters. Although sales of these products rebounded drastically in the fourth quarter, overall sales of injection products for the year had decreased by 10.1%.

While sales of the Group's soft capsule products declined during the first quarter due to the pandemic, growth were recorded in the second and fourth quarters. Overall sales of soft capsule products for the full year increased by 4.5% as compared to last year.

After the pandemic became under control, outpatient visits had shown a significant rebound. The only exception was the pediatric outpatient clinics. As youngster patients had been staying home due to school suspension, there was a wide reduction of pediatric respiratory infection due to children's reduced contact with the public, resulting in a corresponding decrease in the demand for the Group's pediatric granule products. Meanwhile, Huamoyan Granule, the Group's key exclusive product, recorded a 64.7% growth in sales during the year, which drove the full year overall sales of granule products to increase by 4.4%.

Oral products contributed to 71.9% of gross profit

As estimated with internal data, oral products accounted for 71.9% of the Group's gross profit for 2020 after adjusting for "Two-Invoices System" effect. The proportion of profit contribution from oral products was much higher than that of injection products. The following shows the estimated percentages of gross profit contribution after adjusting for "Two-Invoices System" effect:

	Percentage of gross profit contribution	
	2019	**2020**
Injection products	31.2%	**28.1%**
Oral products	68.8%	**71.9%**
Total sales	100.0%	**100.0%**

In 2020, sales of injection products as a percentage to total turnover of the Group dropped from 31.2% of last year to 28.1%. The percentage of profit contribution from injection products continued to decline. At the same time, sales of oral products as a percentage to total turnover for the year rose from 68.8% of last year to 71.9%.

Since our oral products had a higher overall gross profit margin than injection products upon adjusting for "Two-Invoice System" effect, an increase in the proportion of sales of oral products would also increase the Group's profitability. The Group will continuously and proactively cultivate new growth areas of oral products while enhancing their growth momentum as a means to continuously lessen concentration of profit contribution from injection products in the coming years.

TCM formula granules nationwide market opens for interprovincial sales

During 2020, sales of the TCM formula granules increased by 10.8% as compared to last year, constituting for about 20.9% of total turnover of the Group. Apart from the impact of the pandemic, the main reason why their sales did not achieve a higher growth in 2020 was due to the reduction in ex-factory prices of TCM formula granules upon negotiations between the Group and medical insurance regulators at the end of 2019. The adjusted ex-factory prices of the Group's TCM formula granules then became a lot closer to those of Chinese medicine decoctions sold at hospitals. Patients have then become more incline to take TCM formula granules, resulting in greater demand and boosting market competitiveness. The sales of TCM formula granules for the first two months of 2021 had increased by 46.0% as compared to the same period of last year.

In February 2021, four ministries including the National Medical Product Administration jointly issued the "Announcements on Ending the Pilot Trial on TCM Formula Granules" to regulate the production of TCM formula granules and to guide the healthy development of the industry for better fulfillment of clinical needs. This new policy has brought about the opening of the nationwide TCM formula granule market by officially allowing manufacturers to sell TCM formula granules across provinces after filing with the respective local provincial drug regulatory authorities upon the effective date of 1 November 2021. This policy has served to affirm the direction and opportunity of development for TCM formula granules.

MANAGEMENT DISCUSSION AND ANALYSIS

Based on currently available data, the Group's domestic sales of TCM formula granules ranks the sixth nationwide at present. With the opportunity brought by the opening of nationwide market, TCM formula granules of the Group will develop rapidly toward the target of forming a nationwide network. The Group is now expediting the strategic positioning of nationwide market, accelerating the registration of our TCM formula granules with targeted provinces while formulating a nationwide grass-root market development blueprint. The Group is also accelerating our market development in Yunnan and further expanding the production capacity of TCM formula granules with an expected annual production value to reach RMB4 billion upon completion, adding stronger momentum to the strategic positioning of the Group's TCM formula granules.

New National Drugs Reimbursement List products provide growth momentum in the coming years

As at the end of 2020, the Group possessed over 400 production permits on medications which consisted of more than 100 products regularly manufactured by the Group, covering 17 therapeutic areas. Among them were 19 exclusive products of the Group and 18 products admitted in the National Essential Drugs List. In addition, 23 products included in the National Low-Priced Medicine Catalogue, whereas 16 products included in the Provincial Low-Priced Medicine Catalogue; and 3 products included in the Catalogue of Emergency Use Drugs. Sales of the Group's key products in 2020 are set out as follows:

				2019 RMB'000	**2020 RMB'000**	**Year-on-year growth rate**	**2020 Percentage of total sales**
TCM formula granules		2 PDRL	–	501,906	**556,327**	10.8%	20.9%
Qing Kai Ling Injection		NDRL	Essential Drug	360,762	**282,065**	-21.8%	10.6%
Shu Xie Ning Injection		NDRL	–	394,343	**273,947**	-30.5%	10.3%
Wu Fu Xin Nao Qing Soft Capsule		5 PDRL	–	200,133	**202,129**	1.0%	7.6%
Shen Mai Injection		NDRL	Essential Drug	192,032	**182,700**	-4.9%	6.9%
Guan Xin Ning Injection		NDRL	–	68,546	**172,497**	151.7%	6.5%
Huamoyan Granule^	*	NDRL	Essential Drug	73,699	**121,346**	64.7%	4.6%
Huo Xiang Zheng Qi Soft Capsule		NDRL	Essential Drug	116,046	**113,710**	-2.0%	4.3%
Pseudomonas Aeruginosa Injection^		9 PDRL	–	82,395	**74,430**	-9.7%	2.8%
Pediatric Qingfei Huatan Granule		3 PDRL	–	102,329	**70,076**	-31.5%	2.6%
Qing Kai Ling Soft Capsule^		NDRL	Essential Drug	45,799	**52,705**	15.1%	2.0%
Xiesaitong Dripping Pill	*	NDRL	–	30,122	**26,499**	-12.0%	1.0%
Compound Liquorice Tablet		NDRL	Essential Drug	45,876	**25,520**	-44.4%	1.0%
Qi Huang Tong Mi Soft Capsule^	*	NDRL	–	138	**22,586**	16,266.7%	0.9%
Jiang Zhi Tong Luo Soft Capsule^	#	NDRL	–	9,172	**10,385**	13.2%	0.4%
Dan Deng Tong Nao Capsule^	#	NDRL	–	17,311	**16,710**	-3.5%	0.6%
Others				465,387	**452,069**	-2.9%	17.0%
Total sales				2,705,996	**2,655,701**	-1.9%	100.0%

^ *The Group's exclusive product*

* *Newly included into the 2019 edition of National Drugs Reimbursement List*

Newly included into the 2020 edition of National Drugs Reimbursement List

MANAGEMENT DISCUSSION AND ANALYSIS

Affected by the sharp decline in both inpatients and outpatients during the pandemic as well as the decreasing patients for respiratory diseases, influenza and pediatric illness, demand of Qing Kai Ling Injection, Shu Xie Ning Injection, and also oral products for pediatrics and respiratory diseases such as Pediatric Qingfei Huatan Granule and Compound Liquorice Tablet was affected immensely. On the other hand, the Group's exclusive products with unique therapeutic effects such as Huamoyan Granule, and Wu Fu Xin Nao Qing Soft Capsule for chronic diseases (such as cardio-cerebrovascular diseases) were comparatively less affected by the pandemic and had a better performance as these products have been benefiting from their long term consumptions.

Shineway's exclusive product, Qi Huang Tong Mi Soft Capsule, which has been included in the National Drugs Reimbursement List at the end of 2019, showed an outstanding performance during the year. Qi Huang Tong Mi Soft Capsule is an innovative Chinese medication developed by the Group for treating functional constipation and has been listed as a state protected Chinese medicine. The Group believes that this product will have an even stronger performance in 2021.

In February 2021, two of the Group's exclusive products, namely Jiang Zhi Tong Luo Soft Capsule and Dan Deng Tong Nao Capsule were included in the National Drugs Reimbursement List. Jiang Zhi Tong Luo Soft Capsule possesses various invention patents and has been listed as a state protected Chinese medicine. Clinical researches had proven that it is effective and safe in the treatment of hyperlipidemia. Dan Deng Tong Nao Capsule is an exclusive innovative ethnic medicine with national patents. It has been included in the Chinese Pharmacopoeia. Clinical researches show that Dan Deng Tong Nao Capsule can be used for the treatment of patients with stroke, transient ischemic attacks, migraine and other clinical diseases, as well as treating acute cerebral infarction effectively and safely. The inclusion in the National Drugs Reimbursement List will add growth momentum to these two exclusive medications in the coming years.

Developing exclusive and innovative medications to expand core product pipelines

The Group is determined to increase our resources on drugs with proprietary intellectual property rights, unique therapeutic effect and high growth potential. We are inclined to develop innovative medications with leading standard, specially for those which are highly recognized by the modern medical system, and those with clinical treatments where Chinese medicine are superior and with distinctive features, namely cardio-cerebrovascular diseases, pediatric diseases, orthopedic diseases, gynecological diseases and geriatric diseases, etc. The Group currently has a total of 7 research projects in various stages of clinical trials. Among them are three groundbreaking exclusive medications as follows:

1. **Sailuotong Capsule**

   The Group's key research initiative "Sailuotong Capsule", an innovative compound TCM, is now under phase III clinical trials in Australia and China. The phase III clinical trial in Australia focuses on the treatment of vascular dementia and Alzheimer's disease, while the phase III clinical trial in China addresses the treatment of vascular dementia. Due to the impact of the COVID-19 pandemic, the clinical trials in China and Australia are currently estimated to be completed in 2023 and 2024 respectively.

2. **Q-B-Q-F Condensed Pill**

   Q-B-Q-F Condensed Pill focuses on the treatment of mycoplasma pneumonia in children. It is currently in the stage of phase III clinical trial. As impacted by the COVID-19 pandemic, it is now conservatively estimated that the clinical trial will be completed in 2025.

3. **JC Soft Capsule**

JC Soft Capsule is a compound TCM developed under the guidelines from the traditional medicine theory. It is a new medication of compound Chinese medicine using "detoxification from the interior to exterior" as the principle for treatment of common cold. It is used for treating upper respiratory tract infection with symptoms such as fever and aversion to cold, dry and sore throat, nasal congestion and runny nose, headache and cough, etc. At present, most traditional Chinese medicine in the market for common cold are heat-clearing detoxifying types or antiseptics, but none of those available in the market are for "detoxification from the interior to exterior". JC Soft Capsule is now conservatively estimated to complete phase III clinical trial in 2024.

The Group is active in the development and registration of classic TCM prescriptions in accordance with the national policies. The target is to complete the registration application for the first batch of classic TCM prescriptions by the end of 2021.

Deploy "Internet+" sales digital transformation swiftly

Although online launching of certain products for sales was affected by the pandemic in the first half of 2020, the Group's internet digital marketing business recorded online sales of RMB83.5 million in 2020, representing an 182.0% increase as compared to last year.

In 2020, the Group's flagship medicine store on Tmall was officially launched. At the same time, the Group had strengthened its strategic corroborations with the country's mainstream B2B and B2C medical e-commerce platforms such as Jingdong, Tmall, Ping An Good Doctor, 111, Inc. and Yao Shi Bang to develop digital sales ecosystem and to drive the scale of sales. During the year, the Group had also formed a community operation team to explore a new online growth model through community marketing. The Group's aim is not only to empowering our entire business segments through the "Internet+" digital transformation but also making it as one of the primary forces of the Group's sales and marketing.

Strengthen academic promotion and evidence-based medical research

The Group strives to contribute to people's health with its range of products which are of superior efficacy and quality. The breakdown of the Group's sales by efficacy of medication in 2020 is as follows.

	2019		**2020**	
	RMB'000	Proportion of sales	**RMB'000**	**Proportion of sales**
Cardiovascular medicines	1,064,938	39.4%	**1,069,838**	**40.3%**
Respiratory system medicines	587,532	21.7%	**516,027**	**19.4%**
Digestive system medicines	173,363	6.4%	**139,102**	**5.2%**
Pediatric medicines	156,471	5.8%	**117,322**	**4.4%**
Orthopedic medicines	87,052	3.2%	**135,103**	**5.1%**
Reinforcing and tonic medicines	9,201	0.3%	**14,142**	**0.6%**
Nervous system medicines	5,944	0.2%	**7,910**	**0.3%**
Gynecological medicines	1,674	0.1%	**5,622**	**0.2%**
	2,086,175	77.1%	**2,005,066**	**75.5%**
TCM formula granules	501,906	18.5%	**556,327**	**20.9%**
Other therapeutic areas	117,915	4.4%	**94,308**	**3.6%**
Total turnover	2,705,996	100.0%	**2,655,701**	**100.0%**

The Group will continue with its academic promotions in the above eight major areas, by focusing on exclusive products with proprietary intellectual property rights, increasing efforts in evidence-based medical research, and focusing on the cultivation of orally consumed products, and accelerating development of the Group's exclusive orally consumed products. The Group is determined to seize the opportunity of the country's favorable policy, and carry out nationwide development and positioning of TCM formula granules, with the goal of becoming one of the country's market leaders in the TCM formula granules industry.

Intelligent manufacturing attains digitalization of product quality

During the year, the Group's "New Model of Intelligent Manufacturing and Digitalization of Modern Chinese Medicine Manufacturing Facility Project" passed site inspection and highly appraised by the National Intelligent Manufacturing Project Acceptance Team, who unanimously opined that the project had reached the standard of intelligent factory. In recent years, the Group has fully adopted information technology such as industrial internet, Internet of Things, big data and cloud computing. Through constantly making use of the technological advancement, we had successfully digitalized our modern Chinese medicine production facilities by integrating ERP (Enterprise Resource Planning system), MES (Manufacturing Execution System), LIMS (Laboratory Information Management System), SCADA (Supervisory Control And Data Acquisition system) and DCS (Distributed Control System). The result is a one-stop data management platform with digital technology which has energized our whole production process by collecting more than 4,000 data points and tens of thousands of process, equipment and environmental parameters and allows digitalization and real time two-way product quality tracing of modern Chinese medicine, laying a solid foundation for strengthening core competitiveness, reducing costs, increasing efficiency and the compliance of national and provincial quality standards of TCM formula granules.

Free cash flow remains strong

Despite the decline in net profit as determined under the International Financial Reporting Standards, cash flow of the Group remained strong. In 2020, net cash from operating activities had increased by 73.5%, from RMB367,996,000 to RMB638,566,000. Meanwhile, payment of capital expenditure decreased from RMB88,402,000 to RMB66,027,000. On the other hand, the Group consistently received more interest income than interest expense payments. All outstanding bank loans will also be repaid with our pledged bank deposits and bank balance before mid-2021, and the Group does not intend to incur any bank loan thereafter. Upon such financial arrangements, free cash flow of the Group in 2020 was estimated to reach RMB572,539,000 (equivalent to HK$680,176,000 or HK$0.82 per share as calculated based on 827,000,000 of total issued shares). The strong free cash flow strengthened the Group's ability to enhance return to shareholders.

Leading in Bloomberg's ESG Disclosure Score

The Group's Board of Directors strongly believes in the importance of environmental protection, corporate social responsibility and sustainable development to the Group's long-term development, and has therefore incorporated these beliefs into the Group's development strategy and adopted corresponding measures in its daily operation and governance. Back in 2017, the Group was included as one of the first batch of manufacturers in the Green Manufacturing Demonstration List by the Ministry of Industry and Information Technology of the People's Republic of China (the "PRC"). In parallel with the development of the Group's business, the Group also pays close attention to sustainability issues such as climate change and the United Nations Sustainable Development Goals, which are of great concerns to the international community. These issues are taken into account in the formulation of the Group's policies. The Group also established a Corporate Social Responsibility and Sustainability Committee in 2018, chaired by an independent non-executive director who is a board member of Friends of the Earth (HK), with overall responsibility to oversee the Group's environmental, corporate social responsibility and sustainable development. The Group has kept active communication channels with different key stakeholders, including employees, investors and shareholders, customers, suppliers, government and regulatory bodies, the community, non-governmental organisations and the media, through various channels and actively responded to their views and requests.

According to the recent information from Bloomberg, the Bloomberg ESG Disclosure Score for the Group currently ranks as the second highest among Hong Kong listed companies in the healthcare sector, and the thirty-seventh highest among all companies listed on the Hong Kong Stock Exchange. The group also received excellent ratings in the ESG scores of other rating agencies.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Turnover

In 2020, the Group recorded a decrease in turnover of 1.9% from last year. Sales of injection products reached approximately RMB1,102,444,000, down approximately 10.1% as compared with 2019. Sales of injection products accounted for approximately 41.5% of the Group's turnover. Sales of soft capsule products were approximately RMB462,090,000, up approximately 4.5% from last year. Soft capsule products accounted for approximately 17.4% of the Group's turnover. Sales of granule products amounted to approximately RMB405,960,000, up approximately 4.4% from last year. Granule products accounted for 15.3% of the Group's turnover. Sales of TCM formula Granules were approximately RMB556,327,000, representing an increase of 10.8% from last year and accounting for 20.9% of the Group's turnover. Sales of the Group's products in other formats were approximately RMB128,880,000 which accounted for approximately 4.9% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers combined of the Group were 5.8% and 26.8% respectively of the Group's turnover for the year.

Cost of Sales

Cost of sales in 2020 was approximately RMB667,855,000 representing approximately 25.1% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 55.9% (2019: 58.7%), 12.3% (2019: 12.5%) and 31.8% (2019: 28.8%) of total cost of sales respectively.

Gross Margin

In 2020, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 77.5% (2019: 75.3%), 78.0% (2019: 73.2%), 76.5% (2019: 70.1%) and 68.1% (2019: 75.6%) respectively. Overall gross margin was 74.9% (2019: 73.2%).

Other Income

Other income mainly includes government subsidies of RMB74,988,000 (2019: RMB81,629,000). The government subsidies mainly represented incentives received from government for research and development and investments in relevant regions in PRC by the Group.

Investment Income

Investment income mainly includes interest income from bank deposits and investments in financial products of RMB87,826,000 (2019: RMB82,960,000) and RMB44,833,000 (2019: RMB36,511,000) respectively.

Impairment Losses on Financial Assets

In 2020, respective impairment of RMB5,800,000 (2019: RMB4,029,000) and RMB1,115,000 (2019: Nil) for trade receivables and trade receivables backed by bank bills were accounted for after the expected credit risk of financial assets assessment by the Group's management.

Impairment Losses on Property, Plant and Equipment, Intangible Assets and Goodwill

The related product of a wholly-owned subsidiary of the Group (the "Subsidiary") will be removed from various provincial drug reimbursement lists in 2022 or before due to the change in drug reimbursement policy in 2020. The Group's management performed impairment assessment on assets related to the Subsidiary and accounted for a one-time non-recurring impairment loss on property, plant and equipment, intangible assets and goodwill of the Subsidiary of RMB229,601,000 in total to reflect the unfavorable outlook of the related product of the Subsidiary.

Distribution Costs

Distribution costs comprise of advertising expenses, distribution and promotion expenses, wages of sales persons and other market promotion and development expenses. In 2020, the distribution costs have increased by approximately 5.2% and accounted for approximately 44.6% of turnover in 2020 (2019: 41.6%). It was mainly due to the increase in market research and development expenses as compared to last year.

Administrative Expenses and Research and Development Costs

In 2020, administrative expenses are maintained at last year level, representing approximately 10.3% (2019: 10.2%) of the Group's turnover. Administrative expenses mainly comprised of (i) non-productive depreciation expenses of fixed assets and amortization expenses of intangible assets and (ii) salaries of administrative staff which accounted for 2.9% and 2.9% of the Group's total turnover in 2020 respectively. Research and development expenses have decreased by approximately 2.9% from last year, accounted for approximately 3.8% (2019: 3.8%) of the Group's turnover in 2020.

Income Tax Rates

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%.

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and was entitled to PRC EIT at concessionary rate of 15.0% (2019: 15.0%). Certain subsidiaries which were recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15.0% for 2019 and 2020. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2020, the effective tax rate of the Group was 25.3% (2019: 21.7%). The increase in effective tax rate was mainly due to certain larger asset impairment losses in current year was non-tax deductible item.

Profit for the Year

The Group's profit attributable to shareholders of the Company for 2020 was RMB295,033,000, representing a decrease of 41.4% from 2019. The decrease in profit was mainly attributable to the effect of a one-time non-recurring impairment loss on property, plant and equipment, intangible assets and goodwill of a subsidiary.

Liquidity and Financial Resources

As at 31 December 2020, bank balances and cash of the Group amounted to approximately RMB3,943,010,000 (2019: RMB3,946,006,000), of which approximately RMB3,800,912,000 (2019: RMB3,841,511,000) were denominated in RMB, others being equivalent to approximately RMB92,627,000, RMB46,143,000 and RMB3,328,000 (2019: RMB99,198,000, RMB1,786,000 and RMB3,511,000) were denominated in Hong Kong Dollars, Australian Dollars and United States Dollars respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

The directors of the Company (the "Directors") believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

Dividends

Details of dividends are set out in the directors' report on page 25 of this annual report.

Capital Structure

For the year ended 31 December 2020, there was no change in the capital structure of the Group and issued share capital of the Company.

Trade Receivables backed by Bank Bills, Trade Receivables and Discounted bills

As at 31 December 2020, trade receivables backed by bank bills and trade receivables increased by 8.3% and 19.9% respectively as compared to the balance as at 31 December 2019. Turnover days of trade receivables backed by bank bills and trade receivables were 59.3 days and 39.3 days (2019: 52.0 days and 29.3 days) respectively.

Inventories

As at 31 December 2020, inventories in the amount of RMB442,999,000, increased by approximately 2.8%, as compared to the balance as at 31 December 2019. As at 31 December 2020, raw materials, work in progress and finished goods accounted for 24.5%, 35.0% and 40.5% (2019: 27.1%, 32.9% and 40.0%) of inventories respectively. Turnover of finished goods inventories in 2020 was 96.1 days as compared to 79.9 days in 2019.

Property, Plant and Equipment

As at 31 December 2020, property, plant and equipment amounted to approximately RMB1,394,771,000, decreased by approximately 6.6% as compared to last year. The Group's management accounted for an impairment loss on property, plant and equipment of RMB4,073,000 of a wholly-owned subsidiary of the Group in current year. The new construction works were mainly the workshop projects located in Yunnan and Xizang and various workshops modification projects located in Shijiazhuang, which amounted to approximately RMB14,486,000 in total, and there were also new additions to buildings, plant and machineries, office equipment and motor vehicles of approximately RMB80,412,000 in total during the year. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold lands, leased properties, leased motor vehicles and leased machineries, which had respective net book values of RMB153,712,000, RMB5,624,000, RMB3,559,000 and RMB5,821,000 as at 31 December 2020.

The depreciation of property, plant and equipment expenses for the year amounted to RMB165,838,000 (2019: RMB162,327,000).

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. During the year, the amortisation of intangible assets was approximately RMB42,574,000. Besides, the Group's management accounted for an impairment loss on intangible assets of RMB168,734,000 of a wholly-owned subsidiary of the Group in current year.

MANAGEMENT DISCUSSION AND ANALYSIS

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, the acquisition of 100% equity interests of Shineway Pharmaceutical (Zhangjiakou) Co., Ltd and Shineway Pharmaceutical (Sichuan) Company Limited in 2010, the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited in 2014 and the acquisition of 100% equity interest of Yunnan Shineway Spirin Pharmaceutical Company Limited in 2015. During the year, the Group's management accounted for an impairment loss on goodwill of RMB56,794,000 of a wholly-owned subsidiary of the Group.

Trade Payables

As at 31 December 2020, turnover days of trade payables was 96.5 days (2019: 97.1 days).

Employees

As at 31 December 2020, the Group had 3,441 (2019: 3,692) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

Exposure to Fluctuations in Exchange Rates

A majority of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and a majority of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange loss for the year arose from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2020, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Contingent Liabilities

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

Loans and Bank Borrowings

As at 31 December 2020, the Group had bank borrowings of RMB369,319,000 which comprised of a bank loan for general operations of RMB70,000,000 (2019: RMB280,000,000) with a fixed interest rate of 2.05% per annum and certain loans associated with the discounted bills of RMB299,319,000 (2019: RMB118,392,000). These borrowings are due within one year. As at 31 December 2020, the Group had certain loans associated with the discounted bills of RMB299,319,000 which were pledged by bank deposits amounting RMB300,000,000. The Group's gearing ratio based on interest bearing debt for the year was 6.4% (2019: 6.9%).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

LI Zhenjiang (李振江), aged 65, is an executive Director and one of the founders of the Group. Mr. Li obtained an EMBA degree from the Yangtze Commercial Institute. Mr. Li joined the predecessor of the Group in 1974 and has been the Chairman and President of the Group and its predecessor since 1984 with responsibility for business development and strategy. He has more than 20 years' experience in the operation and management of modern Chinese medicine enterprises. Mr. Li takes charge of the overall management of the Group and is also specifically responsible for the Group's research and development activities. Mr. Li is a Representative to the 10th, 11th and 12th National People's Congress. He was named as an Outstanding Entrepreneur in the PRC Pharmaceutical Industry in 1994 and has received a National Wu Yi Labour Award and special subsidies of the State Council. Mr. Li is the vice-chairman of the PRC Chinese Medicine Association. Mr. Li is also directors of several members of the Group.

XIN Yunxia (信蘊霞), formerly known as XIN Yunxia (信雲霞) aged 57, is an executive Director and one of the founders of the Group. Ms. Xin graduated from the Yangtze Commercial Institute with an EMBA degree. Ms. Xin is primarily responsible for the Group's human resources management and operation. Ms. Xin joined the predecessor of the Group in 1981, focused on administration. She was the Deputy General Manager (human resources management) of Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Xin has more than 20 years' experience in business management in the industry with the Group.

LI Huimin (李惠民), aged 53, is an executive Director. He obtained an EMBA degree from Chinese University of Hong Kong in 2016. He is primarily responsible for the marketing and sales of the Group's products and, since joining the predecessor of the Group in 1992, focused on sales and marketing. Immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004, Mr. Li was the sales and marketing manager of Shineway Medical. He has developed a deep understanding of sales management in the PRC Chinese medicine industry with more than 15 years' experience. Mr. Li is the vice-chairman of Hong Kong Chinese Prepared Medicine Traders Association since 2010.

CHEN Zhong (陳鍾), aged 54, is an executive Director of the Group. He is qualified as a chief senior engineer and is a certified pharmacist. He graduated from Hebei Medical University in 1990 with a bachelor's degree in pharmacy. Mr. Chen is a leader of Modern Traditional Chinese Medicines Manufacturing Technology of Hebei Province, chief officer of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection, chief officer of Chinese Medicine Injection Engineering and Technology Research Centre in Hebei Province, general vice-officer of National-Recognition on Enterprise Technology Centre, deputy officer of specialized committee of traditional Chinese medicines on economic in China Association of Traditional Chinese Medicine and price review expert on medicines in National Development and Reform Commission of the People's Republic of China. Mr. Chen joined the predecessor of the group in 1990 and is currently the vice president of the Shineway Pharmaceutical Group Limited ("Shineway Pharmaceutical") director of Hebei Shineway Pharmaceutical Company Limited ("Hebei Shineway"), director of Xizang Shineway Pharmaceutical Company Limited and director of Shineway Pharmaceutical (Hainan) Company Limited. He is responsible for quality control on production and technology management activities of the Company's group with over 20 years of experience.

Independent Non-Executive Directors ("INED")

CHENG Li (程麗), aged 61, was appointed as an INED in 2006. She has a legal science bachelor's degree and the legal science master's degree from the law department of Japan Special Training University. She also studied in Sino-Japanese Investment Trade Promotion Association. She joined Commerce & Finance Law Office in 1995 and became a partner of Commerce & Finance Law Office since 2002. She is currently a member of Beijing Lawyer Association.

DIRECTORS AND SENIOR MANAGEMENT

LUO Guoan (羅國安), aged 74, was appointed as an INED on 16 June 2017. He graduated with biochemical engineering profession, and subsequently obtained master degree in chemistry from East China University of Science and Technology. Prof. Luo is the head of the Collaboration Centre of Network for Traditional Chinese Medicine of National Education Ministry, professor and doctoral tutor of the Department of Chemistry in Tsinghua University. Prof. Luo is currently the committee chairman of the biopharmaceutical technology branch of China Medicinal Biotech Association, council chairman of the National Conference on Pharmaceutical Analysis and the chairman of Chinese Medicine Product Development and Cultivation of Professional Committee in China Association of Traditional Chinese Medicine. Prof. Luo is a well-known expert in the field of Chinese medicine analysis and quality control. He has long been engaged in drug analysis and traditional Chinese medicine systems and biological research. He has published a book titled "Systems Biology for Traditional Chinese Medicine" which is an international publication of traditional Chinese medicine system biology monographs.

CHEUNG Chun Yue Anthony (張振宇), aged 38, was appointed as an INED on 1 January 2019. Mr. Cheung has more than 15 years of experiences in finance and asset management and had served in renowned institutions, including BNP Paribas, Pictet Asset Management and Gartmore Investment Management. Mr. Cheung is an INED and chairman of the environmental, social and governance ("ESG") committee of IPE Group Limited (stock code: 929), and also an INED of Forward Fashion (International) Holdings Company Limited (stock code: 2528). Mr. Cheung holds a bachelor's degree in economics from the London School of Economics and Political Science, University of London and is a Fellow of CPA Australia. He was awarded the Certified ESG Analyst designation. Mr. Cheung is an executive director of the Hong Kong Independent Non-Executive Director Association, director of Friends of the Earth (HK) and co-chairman of the insurance working group of the Hong Kong Green Finance Association.

Non-Executive Directors ("NED")

ZHOU Wencheng (周文成), aged 45, was appointed as a non-executive director on 1 October 2020. Mr. Zhou graduated from the Faculty of Finance and Taxation of the Hebei University of Economics and Business, is a certified tax agent of the People's Republic of China. Mr. Zhou has more than 20 years' experience in financial and taxation management. He has been the chief executive officer of Kexin Enterprise Consulting Group Company Limited since 2017, and has provided financial and taxation consultancy services for various large and medium-sized domestic enterprises.

SENIOR MANAGEMENT

LIU Tiejun (劉鐵軍), aged 46 joined the predecessor of the Group in 1999 and was appointed as vice president of the Group on May 16, 2013. He is qualified as a senior engineer and is a certified Pharmacist. He graduated from Hebei Medical University in 1999 with a bachelor's degree in pharmacy. Mr. Liu is a member of the China Association of Chinese Medicine (Chinese Medicine Branch) and a deputy director of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection. He has received Model Worker of Hebei Province Award by the People's Government of Hebei Province. Mr. Liu is currently the Production vice president and the legal representative of the Shineway Pharmaceutical Group Limited (formerly known as Shineway Pharmaceutical Company Limited). He is responsible for overseeing the Group's Production technology management with more than 20 years' experience.

ZHANG Yudong (張宇棟), aged 47, joined the Group in 1994. He graduated from Hebei University of Economics and Business with major in marketing and obtained a bachelor's degree in pharmacy. He has served as director of Investment, general manager of hospital division and general manager of terminal division. Since November 2017, he has been the general manager of sales and marketing. He is responsible for the sales and marketing management of the Group with more than 20 years' experience.

DIRECTORS AND SENIOR MANAGEMENT

HUNG Randy King Kuen (孔敬權), aged 55, is the Director of Investor Relation of the Group. Mr. Hung has more than 20 years of experience as CFO, executive director and independent non-executive director of various listed companies in Hong Kong. He was an executive director of the Group from 2005 to 2010, and was appointed as a non-executive director of the Group in 2011 and continued to serve as an independent non-executive director of the Group from 2014 to March 2017. Currently, Mr. Hung is also serving as a council member and the Chairman of Training Committee of the Hong Kong Institute of Directors, and the Vice Chairman of Hong Kong Investor Relations Association.

Mr. Hung is a fellow CPA of Hong Kong and a licensed CPA of the State of California, USA. He holds an MBA degree from University of London and a Bachelor degree in Accounting and a Certificate of Programming and Data Processing from the University of Southern California. Mr. Hung also obtained a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong, a Specialist Certificate in Corporate Finance from the Hong Kong Securities and Investment Institute, and a Certificate in Investor Relations from the UK Investor Relations Society. He has extensive experience in IPO, corporate finance and investor relation.

COMPANY SECRETARY

LEE Bun Ching, Terence (李品正), aged 48, is the Financial Controller and Company Secretary of the Group. He joined the company in 2011 as the Financial Controller and was appointed as the Company Secretary and an Authorised Representative with effect from 1 July 2017. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor's degree in Accounting and Financial Analysis and a master's degree in Economics and Finance from the University of Warwick in the United Kingdom. Mr. Lee has extensive work experience in the field of auditing, accounting, finance and taxation. Prior to joining the Group, he served as the Group Accounting Controller of a listed company in Hong Kong for over 3 years. Between 1996 and 2007, Mr. Lee worked in a reputable international accounting firm and was a Senior Manager when he left in 2007.

DIRECTORS' REPORT

The Board is pleased to present to the shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its subsidiaries are research and development, manufacturing and trading of modern Chinese medicines.

A fair review of business of the Group during the year under review, discussion on the key financial performance indicators of the Group and future development of the Group's business are provided in "Management Discussion and Analysis" set out on pages 8 to 20 of this annual report. Particulars of important events affecting the Company that have occurred since the end of the financial year under review, if any, can be found in the abovementioned section and the notes to the consolidated financial statements.

Environmental Policies and Performance

The Group is committed to creating a successful business that is not achieved at the expense of the environment. The Group is dedicated to creating an environmentally friendly and sustainable operation. The Group has enforced the "Environmental Protection Law of the PRC", "Law of the Peoples' Republic of China on the Prevention and Control of Water Pollution" and other laws and regulations.

Compliance with the Applicable Laws and Regulations

In 2020, the Group has complied with the relevant laws and regulations which have significant impact on the operations of the Group.

Relationships with Employees, Customers and Suppliers

The Group's management policies, working environment, career prospects and employees' benefits have contributed to building good employee relations and employee retention of the Group. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses, a share option scheme and a share award scheme. The management regularly reviews its employee's remuneration packages to ensure they are up to prevailing market standard.

The Group has established long term business relationships with its major suppliers and customers. The Group will endeavor to maintain its established relationship with these existing suppliers and customers.

Principal Risks and Uncertainties

There are a number of risks and uncertainties which may affect the performance and operation of the Group. The followings are summary of principal risks and uncertainties identified by the Group.

Product Liability

As the insurance is not mandatory required, the Group has no effective product liability insurance policy in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group, it may attract negative publicity to the Group and our products, which may adversely affect our reputation, business, financial condition and operations. We have set up a dedicated department to strictly implement the relevant technical and quality standards to ensure that the products meet the requirement in all aspects, to avoid product liability, and to properly handle relevant issues expeditiously.

Healthcare Reform in China

The healthcare system in the PRC is undergoing a crucial reform period, where laws, regulations and policies in effect governing the medical, healthcare and pharmaceutical industry are constantly evolving. Moreover, regulatory bodies in the PRC may regularly or unexpectedly amend its implementation practices. Accordingly, past enforcement actions taken may not be reflective of future actions. Any enforcement action taken by the government against may affect the Group adversely and result in negative publicity and reputation damage. Hence, the Group will pay close attention to the updates and timely implement the measures required by the relevant laws and regulations so as to limit any adverse effect on its business and operation.

Tender and Price Control

The Group has to participate in a government-led tender process every year or every few years. In the event that the Group fails to win the tender in a provincial tender process, the sale of products in such province will be affected and the Group will lose market share in such province. The market share, revenue and profitability of the Group may be adversely affected. We have a team of staff monitoring and handling the drug tenders of our products with the objective of winning the tenders for our products at a desirable price level. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

RESULTS

The results of the Group for the year ended 31 December 2020, prepared in accordance with the International Financial Reporting Standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 60 of this annual report.

DIVIDENDS

An interim dividend of RMB11 cents per share, which is calculated on the basis of 827,000,000 shares in issue less 72,400,000 shares held for share award scheme as at 9 October 2020, amounting to RMB83,006,000, was paid to the shareholders on 29 October 2020.

The Board now recommends a final dividend of RMB21 cents per share for the year ended 31 December 2020, to be paid out on 17 June 2021, to the shareholders whose names appear on the register of members of the Company on 10 June 2021. The proposed final dividend will be voted by shareholders at the annual general meeting (the "AGM") to be held on 28 May 2021.

DIRECTORS' REPORT

DIVIDEND POLICY

The Board has adopted a dividend policy. Any distribution of dividends shall be in accordance with the applicable laws and the relevant provisions of Articles of Association effective from time to time. The Company may declare and distribute final dividends, interim dividends or special dividends as may be determined by the Board from time to time. Profit distribution of the Company shall take into account: (i) the financial performance of the Company; (ii) the reasonable return in investment of the investors and the Shareholders in order to provide incentive to them to continue to support the Company in their long-term development; (iii) the future development needs of the Company; (iv) the market sentiment and circumstances; and (v) other factors deemed appropriate by the board.

FINANCIAL HIGHLIGHTS

A summary of the results and assets and liabilities for the last five years, as extracted from the relevant audited financial statements, is set out on page 4 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in notes 26 and 36 to the consolidated financial statements, respectively. As at 31 December 2020, the Company's reserves available for distribution to shareholders amounted to RMB1,125,273,000 (2019: RMB974,855,000).

DEBENTURES

The Company has not issued any debentures during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. Li Zhenjiang
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Chen Zhong

Independent Non-Executive Directors:

Ms. Cheng Li
Prof. Luo Guoan
Mr. Cheung Chun Yue Anthony

Non-Executive Director:

Mr. Zhou Wencheng (appointed on 1 October 2020)

The biographical details of the Directors are set out on pages 21 to 22 of this annual report.

Mr. Zhou Wencheng ("Mr. Zhou") was appointed as a Non Executive Director with effect from 1 October 2020. Details of Mr. Zhou's appointment and biographical information were disclosed in the announcement of the Company dated 30 September 2020.

Each of Mr. Li Zhenjiang, Ms. Xin Yunxia and Mr. Li Huimin have entered into a service contract with the Company for a term of two years commencing from 1 October 2020. Mr. Chen Zhong has entered into a service contract with the Company for a term of two years commencing from 1 December 2020. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

INED Mr. Cheung Chun Yue Anthony and NED Mr. Zhou Wencheng have been appointed for a term of two years. Their service contract will continue thereafter until terminated by not less than one month notice in writing served by either party on the other. INEDs Ms. Cheng Li and Prof. Luo Guoan do not have service contracts with the Company. According to the articles of association of the Company (the "Article of Association"), one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to and not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three year.

None of the Directors proposed for re-election at the forthcoming AGM has entered into or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

The Company had received confirmation from each of the INEDs of their independence 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 considered all INEDs to be independent.

DIRECTORS' REPORT

Pursuant to Article 87(1) of the Articles of Association, Mr. Li Huimin, Mr. Chen Zhong and Mr.Cheung Chun Yue Anthony will retire from the Board at the forthcoming AGM. Pursuant to Article 86(3) of the Articles of Association, Mr. Zhou Wencheng will hold office until the forthcoming AGM. The above-mentioned Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Details of Directors' emoluments on a named basis are set out in note 11 to the consolidated financial statements.

CHANGE IN DIRECTOR'S INFORMATION

Save as the appointment of Mr. Zhou Wencheng on 1 October 2020 as NED, the Company is not aware of any changes in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PERMITTED INDEMNITY PROVISION

The Articles of Association provides that every Director is entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he may incur or sustain in or about the execution of the duties of his office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company had arranged for appropriate liability insurance for the directors and officers of the Group for indemnifying their liabilities arising from corporate activities.

MANAGEMENT CONTRACTS

No contracts other than employment contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save as disclosed in note 33 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a Director or an entity connected with the Director had a material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

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

Name of Director	Name of relevant company	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust *(Note)*	546,802,990	66.12%
Li Huimin	Company	Beneficiary owner	1,020,000	0.12%
Xin Yunxia	Company	Beneficiary owner	540,000	0.07%
Chen Zhong	Company	Beneficiary owner	280,000	0.03%

Note: These 546,802,990 shares of the Company ("Shares") are held by Forway Investment Limited ("Forway"). Forway is owned as to 100% by Fiducia Suisse SA, a trust company, in its capacity as the trustee of The Li Family 2004 Trust. The Li Family 2004 Trust is a discretionary trust, the founder (as defined in the SFO) of which is Mr. Li Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang (excluding Mr. Li Zhenjiang himself). Accordingly, Mr. Li Zhenjiang is deemed to be interested in the 546,802,990 Shares under the SFO.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executives of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year was the Company, its holding companies, fellow subsidiaries or any of 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.

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 31 December 2020, interest of every person (not being a Director or chief executive of the Company) in the shares and underlying shares in 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 shareholder	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Forway	Beneficial owner	546,802,990	66.12%
Fiducia Suisse SA *(Notes 1 and 2)*	Trustee of discretionary trust	546,802,990	66.12%

Notes:

(1) Interests of Forway and Fiducia Suisse SA in the Shares were duplicated.

(2) The entire issued share capital of Forway is owned by Fiducia Suisse SA in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang (excluding Li Zhenjiang himself).

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 10 November 2004 and was expired on 9 November 2014 (the "2004 Scheme"). All outstanding options granted under the 2004 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2004 Scheme. The Company adopted a new share option scheme at an extraordinary general meeting of the Company held on 29 May 2015 (the "2015 Scheme"). The purpose of the 2015 Scheme is to provide the Company with a flexible means of incentivizing, rewarding, remunerating, compensating and/or providing benefits to the following participants, and for such other purposes as the Board may approve from time to time:

(i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;

(iii) any consultant, professional and other advisers to any member of the Group;

(iv) any chief executive or substantial shareholder of any member of the Group;

(v) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The maximum number of shares in respect of which options may be granted under the 2015 Scheme and any other share option schemes of the Company shall not in aggregate exceed 82,700,000 representing 10% of the shares in issue as at 29 May 2015 (being the date of the extraordinary general meeting approving the 2015 Scheme) and as at the date of this annual report.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the 2015 Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the total number of shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million,

Such grant of option shall be subject to prior approval of the shareholders of the Company who are not the grantee, his associates all core connected persons of the Company as defined in the Listing Rules.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per grant. Subject to terms and conditions upon which the option was granted, options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. The 2015 Scheme has a life of 10 years and will expire on 28 May 2025.

There were no options granted, exercised, cancelled/lapsed or outstanding under the 2004 scheme during the year.

Details of options granted, exercised, cancelled/lapsed and outstanding under the 2015 Scheme during the year are as follows:

		No. of shares comprised in share options					
Name of grantees	Date of grant	As at 1 Jan 2020	Granted during the year	Lapsed during the year	As at 31 Dec 2020	Notes	Exercise price per share (HK$)
Other Employees	1 Jun 2016	1,000,000	–	–	1,000,000	1	8.39
Other Employees	30 Aug 2017	3,000,000	–	–	3,000,000	2	7.21
		4,000,000	–	–	4,000,000		

Notes:

(1) *The options have a validity period of 6 years from the date of grant on 1 June 2016.*

The options are exercisable in tranches:

(i) *up to 20% within such period(s) during the year commencing on 1 June 2017 to be designated by the Company;*

(ii) *up to 20% within such period(s) during the year commencing on 1 June 2018 to be designated by the Company;*

(iii) *up to 20% within such period(s) during the year commencing on 1 June 2019 to be designated by the Company;*

(iv) *up to 20% within such period(s) during the year commencing on 1 June 2020 to be designated by the Company; and*

(v) *up to 20% within such period(s) during the year commencing on 1 June 2021 to be designated by the Company.*

The Share Options will be exercisable upon achievement of the relevant performance targets.

The closing price per share immediately before the date on which the options were granted was HK$8.39.

(2) *The options have a validity period of 10 years, from 30 August 2017 to 29 August 2027 (both dates inclusive).*

The Share Options will be exercisable upon achievement of the relevant performance targets.

The closing price per share immediately before the date on which the options were granted was HK$7.19.

For details of the nature and terms of the 2015 Scheme, please refer to the circular of the Company dated 8 May 2015.

SHARE AWARD SCHEME

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

During the year ended 31 December 2020, 7,032,000 (2019: 35,501,000) shares were purchased by the trustee from the market at an average price of approximately HK$5.70 (equivalent to RMB4.80) (2019: HK$7.67 (equivalent to RMB6.87)) per share, with an aggregate amount of HK$40,081,000 (equivalent to RMB33,738,000) (2019: HK$272,325,000 (equivalent to RMB244,019,000)). No shares were granted to eligible employees pursuant to the Scheme. At the end of the reporting period, there are 72,400,000 (2019: 65,368,000) shares held by the trustee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2020, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

EQUITY-LINKED AGREEMENT

Save for share option schemes disclosed in this annual report, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

TAX RELIEF

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers combined of the Group were 5.8% and 18.9% respectively of the Group's turnover for the year.

The aggregate purchases attributable to the largest supplier and five largest suppliers combined of the Group were 4.5% and 16.2% respectively of the Group's purchases for the year.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) has any interests in the five largest customers or suppliers of the Group.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transaction:

Technical Services Agreement between Shineway Pharmaceutical and Shineway Medical

On 5 November 2019, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a technical services agreement, in relation to the provision of technical services by Shineway Medical to Shineway Pharmaceutical in relation to clinical trial, for a term commencing from 5 November 2019 to 4 November 2024 at a consideration of RMB14,000,000. The spouse of Mr. Li Zhenjiang, an executive Director, indirectly holds 100% equity interest in Shineway Medical. Accordingly, Shineway Medical is a connected person of the Company within the meaning of the Listing Rules.

Land Lease Agreement with Shineway Medical

On 9 February 2018, a land lease agreement (the "Land Lease Agreement I") was entered into between Shineway Pharmaceutical and Shineway Medical. Pursuant to the Land Lease Agreement I, Shineway Medical has conditionally leased to Shineway Pharmaceutical a land with an area of approximately 49,276 square meters owned by Shineway Medical for a period of three years from 1 January 2018. The leased land is restricted to the operation of a building complex, plaza and animal centre. The transaction amount and cap amount of such transaction for the year ended 31 December 2020 both are RMB1,400,000 (2019: RMB1,400,000).

On 17 December 2020, Land Lease Agreement I has been renewed for a period of three years from 1 January 2021 to 31 December 2023. The annual rental payable to Shineway Medical by Shineway Pharmaceutical amounts to RMB1,600,000. Pursuant to IFRS 16, the entering into of the Land Lease Agreement I require the Group to recognize the rental payments as right- of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Land Lease Agreement with Shineway (Sanhe) Property development Limited ("Shineway Sanhe")

On 9 February 2018, a land lease agreement (the "Land Lease Agreement II") was entered into between Hebei Shineway and Shineway Sanhe. The spouse of Mr Li Zhenjiang, an executive Director, holds 30% of equity interest of Shineway Sanhe. Accordingly, Shineway Shanhe is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the Land Lease Agreement II, Shineway Sanhe has conditionally leased to Hebei Shineway a land with an area of approximately 20,986 square meters owned by Shineway Sanhe for a period of three years from 1 January 2018. The leased land is restricted to the entrance and injection workshop. The transaction amount and cap amount of such transaction for the year ended 31 December 2020 are both RMB1,100,000 (2019: RMB1,100,000).

On 17 December 2020, Land Lease Agreement II has been renewed for a period of three years from 1 January 2021 to 31 December 2023. The annual rental payable to Shineway Sanhe by Hebei Shineway I amounts to RMB1,200,000. Pursuant to IFRS 16, the entering into of the Land Lease Agreement II require the Group to recognize the rental payments as right- of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Hotel Services Agreement with Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")

On 9 February 2018, a Hotel Services Agreement (the "Hotel Services Agreement") was entered into between Shineway Pharmaceutical and Kang Yue Hotel, a connected person of the Company by virtue of being indirectly owned 100% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Hotel Service Agreement, Kang Yue Hotel has agreed to provide Shineway Pharmaceutical with room rental and hotel services for a period of three years from 1 January 2018. The transaction amount and cap amount of such transaction for the year ended 31 December 2020 are RMB1,692,812 and RMB4,268,000 respectively (2019: RMB1,793,754 and RMB3,668,000).

On 17 December 2020, Hotel Services Agreement has been renewed for a period of three years from 1 January 2021. The payment to be made by the Group under the Hotel Services Agreement contains different components and therefore different accounting treatments should be applied. The Hotel Service Agreement contains two components which are room rentals and hotel services. Pursuant to IFRS 16, the entering into of the hotel services agreement in respect of the room rentals require the Group to recognize the rental as right-of-use assets of the Group, which constitute a one-off connected transaction of the Group. In respect of the room rental of the hotel rooms, the annual rental payable to Kang Yue Hotel by Shineway Pharmaceutical amounts to RMB1,368,000.

Equipment Lease Agreement with Shineway Medical

On 17 December 2020, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into an equipment lease agreement, in relation to the provision of the lease of a number of automatic liquid impurities inspection machine by Shineway Medical to Shineway Pharmaceutical, for a term commencing from 1 January 2021 to 31 December 2023 at annual rent of RMB2,100,000. Pursuant to IFRS 16, the entering into of the equipment lease agreement require the Group to recognize the rental payments as right-of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Car Lease Agreement with Shineway Medical

On 17 December 2020, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a car lease agreement, in relation to the provision of the lease of a number of cars by Shineway Medical to Shineway Pharmaceutical, for a term commencing from 1 January 2021 to 31 December 2023 at annual rent of RMB1,284,000. Pursuant to IFRS 16, the entering into of the car lease agreement require the Group to recognize the rental payments as right-of-use assets of the Group, which constitute a one-off connected transaction of the Group.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions:

General Services Agreement between Shineway Pharmaceutical and Shineway Medical

On 9 February 2018, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"). Pursuant to the General Services Agreement I, Shineway Medical has agreed to provide Shineway Pharmaceutical with property management services, catering services for a term commencing from 1 January 2018 until 31 December 2020. The transaction amount and cap amount of such transaction for the year ended 31 December 2020 are RMB10,833,450 and RMB12,500,000 respectively (2019: RMB10,220,236 and RMB11,500,000 respectively).

On 17 December 2020, General Services Agreement I has been renewed for a period of three years from 1 January 2021. The proposed annual caps for General Service Agreement I for the three years ending 31 December 2023 are RMB10,500,000, RMB11,500,000 and RMB12,500,000 respectively.

General Services Agreement between Hebei Shineway and Shineway (Sanhe)

On 9 February 2018, Hebei Shineway, a wholly-owned subsidiary of the Company, and Shineway Sanhe entered into a general services agreement ("General Services Agreement II"). Pursuant to the General Services Agreement II, Shineway Sanhe has agreed to provide Hebei Shineway with property management services, catering services for a term commencing from 1 January 2018 until 31 December 2020. The transaction amount and cap amount of such transaction for the year ended 31 December 2020 are RMB2,546,350 and RMB2,800,000 respectively (2019: RMB2,402,216 and RMB2,600,000 respectively).

On 17 December 2020, General Services Agreement II has been renewed for a period of three years from 1 January 2021. The proposed annual caps for General Service Agreement II for the three years ending 31 December 2023 are RMB3,000,000, RMB3,200,000 and RMB3,400,000.

Hotel Services Agreement with Kang Yue Hotel Co., Ltd.

On 9 February 2018, a Hotel Services Agreement (the "Hotel Services Agreement") was entered into between Shineway Pharmaceutical and Kang Yue Hotel. Pursuant to the Hotel Service Agreement, Kang Yue Hotel has agreed to provide Shineway Pharmaceutical with room rental and hotel services for a period of three years from 1 January 2018. The transaction amount and cap amount of such transaction for the year ended 31 December 2020 are RMB1,692,812 and RMB4,268,000 respectively (2019: RMB1,793,754 and RMB3,668,000).

On 17 December 2020, Hotel Services Agreement has been renewed for a period of three years from 1 January 2021. The payment to be made by the Group under the hotel service agreement contains different components and therefore different accounting treatments should be applied. The Hotel Service Agreement contains two components which are room rentals and hotel services. The entering into of the Hotel Services Agreement in respect of the hotel services of the Hotel constitute a continuing connected transaction of the Company. The proposed annual caps for Hotel Services Agreement in respect of the hotel services for the three years ending 31 December 2023 are RMB3,000,000.

Training Agreement with Shijiazhuang Municipal Luancheng County Shineway Training School ("Shineway Training School")

On 9 February 2018, a Training Agreement (the "Training Agreement") was entered into between Shineway Pharmaceutical and Shineway Training School, a connected person of the Company by virtue of being indirectly owned 100% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Training Agreement, Shineway Training School has agreed to provide Shineway Pharmaceutical with training services and training venue for a period of three years from 1 January 2018. The transaction amount and cap amount of such transaction for the year ended 31 December 2020 are RMB1,826,870 and RMB5,000,000 respectively (2019: RMB2,260,771 and RMB5,000,000).

On 17 December 2020, Training Agreement has been renewed for a period of three years from 1 January 2021. The proposed annual caps for Training Agreement for the three years ending 31 December 2023 are RMB5,000,000.

As one or more applicable percentage ratios (other than the profits ratio) in respect of the annual caps for the transactions contemplated under each of (1) the General Services Agreement I, (2) the General Services Agreement II, (3) the Hotel Services Agreement in respect of the hotel service of the Hotel and (4) the Training Agreement, on an annual basis, exceeds 0.1% but is less than 5%, the transactions contemplated under the aforesaid agreements are subject to the reporting and announcement requirements under the Listing Rules and are exempt from circular and shareholders' approval requirement under the Listing Rules.

The INEDs have reviewed the continuing connected transactions disclosed above and confirmed that the transactions have been entered into:

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

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The management has monitored and ensured that (a) the connected transactions have been conducted in accordance with the pricing policies or mechanisms (if applicable) under the agreements, including the pricing range, the process for estimating the prices for the goods or services, and the procedures for obtaining quotations or tenders, as appropriate; and (b) the Company's internal control procedures are adequate and effective to ensure that connected transactions are so conducted.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The related party transactions in note 33 to the consolidated financial statements of this annual report fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosures requirements in accordance with Chapter 14A of the Listing Rules.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence. Details of the share option scheme and share award scheme adopted by the Company are set out in the sections "Share Option Scheme" and "Share Award Scheme" above.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Directors' fees, basic salaries, housing allowances, other allowances and benefits in kind are disclosed in note 11 to the consolidated financial statements.

The contributions to pension schemes for Directors for the financial year are disclosed in note 11 to the consolidated financial statements.

Pursuant to the Directors' service contracts with the Company, all executive Directors may be entitled to a discretionary bonus to be determined by the Board (or its duly appointed remuneration committee) at its absolute discretion having regard to the performance of the Group, provided that the aggregate amount of the bonus payable to those Directors in respect of any financial year shall not exceed 5% of the audited consolidated net profit after taxation but before extraordinary items of the Company for the relevant financial year.

There was no compensation paid during the financial year ended 31 December 2020 or receivable by Directors or past Directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high level of corporate governance practices. The Company's corporate governance report is set out on pages 40 to 52. Details of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility and Sustainability Committee are given in the same report.

PENSION SCHEMES

The pension schemes of the Group are primarily in the form of contributions to the Hong Kong Mandatory Provident Fund and China's statutory public welfare fund. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries and such contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the schemes. The retirement benefit scheme cost charged to profit or loss and other comprehensive income represents contributions payable by the Group to the funds.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float throughout the year of 2020 as required under the Listing Rules.

DIRECTORS' REPORT

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the controlling shareholders of the Company and any of their respective close associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group has devoted 560 hours and donated RMB3.45 million to charitable activities which will be disclosed in "Community Contribution" in the Environmental, Social and Governance Report to be published.

AUDITOR

A resolution will be proposed at the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Xin Yunxia
Director

Hong Kong, 30 March 2021

CORPORATE GOVERNANCE REPORT

Dear Shareholders,

CORPORATE GOVERNANCE PRACTICES

The Group is firmly committed to statutory and regulatory corporate governance standards and adhere to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board believes that good corporate governance practices are essential elements in guiding the growth and management of the business of the Group. Therefore the Board reviews its corporate governance practices from time to time to ensure that they protect the shareholders' interest, comply with legal and professional standards and reflect the latest local and international circumstances and development. The Board will continue to commit itself to achieving a high quality of corporate governance.

Throughout the year ended 31 December 2020, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for code provision A.2.1 as described below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are likely to be in possession of inside information of the Group. Having made specific enquiry with the Directors, all Directors confirmed that, in respect of the year ended 31 December 2020, they had complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

BOARD OF DIRECTORS

As at 31 December 2020, the Board comprises four executive Directors, three INEDs and one NED. The names of the Directors and their respective biographies are set out on pages 21 to 22 of this annual report.

The Company had arranged for appropriate liability insurance for the directors and officers of the Group for indemnifying their liabilities arising from corporate activities.

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it. The Board represents shareholders in overseeing the Group's business. The Directors recognise their responsibilities to enhance shareholders' value and to conduct themselves in accordance with their duty of care and loyalty.

Four board committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the Corporate Social Responsibility and Sustainability Committee (the "CSR and sustainability Committee"), have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's businesses to the management of the Company and its subsidiaries respectively. Major corporate matters that are specifically delegated by the Board to the management include the preparation of financial statements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

The Board had met four times during the year to review the financial performance of the Group, major issues (whether or not required by the Listing Rules) and also on other occasions when Board decisions were required. The views of INED were actively solicited by the Group if they were unable to attend meetings of the Board.

The major issues which were brought before the Board for their decisions during the year include:

1. formulation of operational strategies and review of its financial performance and results and the internal control system;

2. discussion and review of the board composition; and

3. the declaration of interim dividend and recommendation to shareholders on final dividend.

From April 2012 onwards, all Directors have been provided, on a monthly basis, with the Group's management information updates to give them aware of the Group's affairs and facilitates them to discharge their duties under the relevant requirements of the Listing Rules.

The Board held four Board meetings and one AGM in 2020. Details of the attendance of the Board are as follows:

	Attended/Held	
	Board Meeting	**AGM**
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	4/4	1/1
Ms. Xin Yunxia	3/4	1/1
Mr. Li Huimin	4/4	1/1
Mr. Chen Zhong	4/4	1/1
Independent Non-executive Directors		
Ms. Cheng Li	4/4	1/1
Prof. Luo Guoan	4/4	1/1
Mr. Cheung Chun Yue Anthony	4/4	1/1
Non-executive Director		
Mr. Zhou Wencheng (appointed on 1 October 2020)	1/1	0/0

CORPORATE GOVERNANCE REPORT

The Directors acknowledged that they are responsible for the preparation of the accounts which give a true and fair view of the affairs of the Group. The auditor is responsible to form an independent opinion, based on their audits, on the Group's financial statements and express their opinions.

The Board has the overall responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Company's assets. The internal audit department has been conducting regular review of the system's effectiveness and reports to the Directors and the audit committee on its material findings.

Every newly appointed Director will be given an induction so as to ensure that he/she has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Directors may request the Company to provide independent professional advice at the Company's expense to discharge his/her duties to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Throughout the year ended 31 December 2020, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for code provision A.2.1 as described below.

The code provision A.2.1 stipulates that the roles of chairman (the "Chairman") and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing. The Company does not use the title "Chief Executive Officer". The duty of chief executive officer has been assumed by the president of the Company (the "President").

Mr. Li Zhenjiang has been both the Chairman and the President. His responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors' training is an ongoing process. During the year, the Company had provided to the Directors regular updates and presentations on changes and developments to the Group's business and to the legislative regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with their record of training they received during the year ended 31 December 2020. During the year ended 31 December 2020, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management.

CORPORATE GOVERNANCE REPORT

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2020, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to corporate governance and regulations:

	Attending training course	Self-study of relevant materials and/ or regulatory updates
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	✓	✓
Ms. Xin Yunxia	✓	✓
Mr. Li Huimin	✓	✓
Mr. Chen Zhong	✓	✓
Independent Non-executive Directors		
Ms. Cheng Li	✓	✓
Prof. Luo Guoan	✓	✓
Mr. Cheung Chun Yue Anthony	✓	✓
Non-executive Directors		
Mr. Zhou Wencheng (appointed on 1 October 2020)	–	✓

TERM OF OFFICE AND RE-ELECTION

INED Mr. Cheung Chun Yue Anthony and NED Mr. Zhou Wencheng have been appointed for a term of two years. INEDs Ms. Cheng Li and Prof. Luo Guoan do not have service contracts with the Company.

Pursuant to Article 87(1), at each annual general meeting, one third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to and not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three year.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference as disclosed on the Company's websites and the website of the Stock Exchange. The primary duties of the Remuneration Committee include the following:

1. to make recommendation to the Board on (a) the Company's policy and structure for all remuneration of Directors and senior management, and (b) the Company's establishment of a formal and transparent procedure for developing policy on such remuneration;

2. to determine the specific remuneration packages of all executive Directors, and senior management, including benefits in kind, pension rights, and compensation payments (including any compensation for loss or termination of office or appointment);

3. to make recommendation to the Board on the remuneration of the INEDs and NED;

4. to have due consideration of all relevant factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

6. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. to review and approve the compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

As at the date of this annual report, the Remuneration Committee comprises two INEDs, Ms. Cheng Li and Mr. Cheung Chun Yue Anthony and one executive Director Ms. Xin Yunxia. Ms. Cheng Li is the chairman of the Remuneration Committee. The Remuneration Committee met three times during the year to assess the performance of executive Directors and to discuss renewal of service contracts of Directors and has duly discharged the above duties.

Individual attendance of each Remuneration Committee member was as follows:

	Attendance
Ms. Cheng Li *(Chairman)*	3/3
Ms. Xin Yunxia	3/3
Mr. Cheung Chun Yue Anthony	3/3

The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The remuneration packages, including emoluments, of the Directors and senior management are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics. The Committee make recommendations to the board on the remuneration packages of mainland executive directors and senior management.

Further details on the emolument policy and basis of determining the emolument payable to the Directors are disclosed on page 38 of this annual report.

The Group's share option scheme and share award scheme as described on pages 30 to 33 of this annual report are adopted as the Group's long term incentive scheme.

NOMINATION COMMITTEE

The Nomination Committee was established with written terms of reference in compliance with the Code. As at the date of this annual report, the Nomination Committee comprise one executive Director, Mr. Li Zhenjiang, and two Independent Non-executive Directors, Prof. Luo Guoan and Mr. Cheung Chun Yue Anthony.

Individual attendance of each Nomination Committee member during the year ended 31 December 2020 was as follows:

	Attendance
Mr. Li Zhenjiang *(Chairman)*	2/2
Prof. Luo Guoan	2/2
Mr. Cheung Chun Yue Anthony	2/2

Mr. Li Zhenjiang is the chairman of the Nomination Committee. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of the INEDs.

BOARD DIVERSITY POLICY

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspective, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Company considers that the current composition of the Board, two out of its eight members being women, is characterized by diversity, whether considered in terms of gender, professional background and skills. The current Directors have extensive experience and skills in, including but not limited to, operation, sales management and business management of Chinese medicine enterprises, quality control on production and technology management activities as well as legal, finance and asset management etc.

The Nomination Committee is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain a high standard of operation.

The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption. In particular, the Nomination Committee will identify and make recommendations to the Board to implement programmes that will assist in the development of a broader and more diverse pool of skilled and experienced employees that, in time, will prepare them for Board positions. At present, the Board has not set any measurable objectives. The Company's existing composition of Board and senior management are highly diverse in terms of gender, age, cultural and educational background, knowledge and professional experience. It reflects an appropriate mix of skills and experience that are relevant to the Group's strategy and business.

NOMINATION POLICY

A nomination policy has been adopted. The nomination policy sets out the selection process on the selection of individual nominated for directorship. The Nomination Committee may search extensively for candidate as director of the Company from the Group or the human resources market and should take into consideration of the structure, size and composition of the Board and from the perspective of board diversity.

The Nomination Committee shall gather information about the occupation, academic qualifications, position served, detailed work experience and all the concurrent posts of the candidate and seek the candidate's consent for nomination. After reviewing the qualifications of the candidate on the criteria for director of the Company, the Nomination Committee then makes recommendation to the Board regarding the candidate as director of the Company and submits the relevant information to the Board prior to the appointment of new director.

All Directors are appointed for a fixed term. The Articles of Association required that one-third of the Directors (including executive Directors and INEDs) shall retire each year. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Cheung Chun Yue Anthony, Ms. Cheng Li, and Prof. Luo Guoan.

All of the members of the Audit Committee are INED. Mr. Cheung Chun Yue Anthony, who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee. No member of this committee is a member of the former or external auditor of the Company. The committee members possess diversified industry experience.

The Audit Committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted terms of reference of the audit committee which complies with the provisions of the Code. The terms of reference of the Audit Committee is available on the Company's websites and the website of the Stock Exchange.

Individual attendance of each Audit Committee member during the year ended 31 December 2020 was as follows:

	Attendance
Mr. Cheung Chun Yue Anthony *(Chairman)*	4/4
Ms. Cheng Li	4/4
Prof. Luo Guoan	4/4

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 53 of this annual report.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY COMMITTEE

The Company has established a Corporate Social Responsibility and Sustainability Committee on 4 March 2019.

Mr. Cheung Chun Yue Anthony is the chairman of the Corporate Social Responsibility and Sustainability Committee. As at the date of this annual report, the members of the Corporate Social Responsibility and Sustainability Committee comprise one executive Director, Ms. Xin Yunxia and two INEDs Ms. Cheng Li and Prof. Luo Guoan.

The Corporate Social Responsibility and Sustainability Committee's primary responsibilities include formulate and review the Group's responsibilities, visions, strategies, frameworks, principles and policies of corporate social responsibility and sustainable development (including but not limited to environmental, social and governance issues) and implement relevant policies approved by the Board. The Company has adopted terms of reference of the Corporate Social Responsibility and Sustainability Committee. The terms of reference of the Corporate Social Responsibility and Sustainability Committee is available on the Company's websites and the website of the Stock Exchange.

The Corporate Social Responsibility and Sustainability Committee met two times during the year to formulate and review the Group's corporate social responsibility and sustainable development.

Individual attendance of each Corporate Social Responsibility and Sustainability Committee during the year ended 31 December 2020 was as follows:

	Attendance
Mr. Cheung Chun Yue Anthony *(Chairman)*	2/2
Ms. Cheng Li	2/2
Prof. Luo Guoan	2/2
Ms. Xin Yunxia	2/2

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

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

5. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During 2020, members of the Board have reviewed and discussed, among other things, the Company's policies and practices on corporate governance at regular board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that appropriate and effective risk management and internal control systems are established and maintained within the Group. The main features of the Group's risk management and internal control systems include the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, to protect its assets against unauthorised use or disposition, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the group's operational systems and in the achievement of the group's business objectives.

The process used by the Group to identify, evaluate and manage significant risks is summarised as follows:

(1) Risk identification: identify risks that may pose a potential impact on the Group's business and operations through the management and the internal control department;

(2) Risk evaluation: evaluate the identified risks based on the likelihood of the occurrence and impact level of the risk; and

(3) Response to risk: according to the evaluation results on the magnitude of the risk, risk management strategies are determined by the internal control department, and through appropriate mechanisms of the Company to ensure the effective implementation of internal control procedures to prevent and reduce the risks.

In relation to the handling and dissemination of inside information in accordance with the Listing Rules and the SFO, the Group has adopted measures including raising awareness of confidentiality in the Group, issuing notices regarding "black-out" period and restrictions on dealings to directors and employees on a regular basis to ensure compliance when handling and disclosing inside information.

The Board and the Audit Committee have delegated the Group's internal audit department to conduct quarterly review of the effectiveness and adequacy of the risk management and internal control systems of the Group covering all material controls, including financial, operational and compliance controls as well as risk management functions. The internal control department of the Group plays a major role in monitoring the risk management and internal controls of the group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities, risk management and internal controls.

Based on the assessments made during the year by the Group's internal audit department, the Board considered that the risk management and internal control systems of the Group are effective and adequate and the Audit Committee has found no material deficiencies on the risk management and internal controls based on the assessments made by the Group's internal audit department.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid to the members of senior management by bands during the year is set out below:

Remuneration Bands (RMB)	Number of individuals
0 – 1,000,000	0
1,000,001 – 2,000,000	4
2,000,001 – 3,000,000	0
3,000,001 – 4,000,000	0
4,000,001 – 5,000,000	0
Total	4

AUDITOR'S REMUNERATION

Since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders annually. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$2,080,000 (2019: HK$2,080,000), and in addition to a total of HK$638,000 (2019: HK$398,000) for other non-audit services, including the review of interim financial statements and tax services.

ACCOUNTABILITY AND AUDIT

The Directors acknowledged their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports. They are not aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 54 to 59.

In preparing the consolidated financial statements for the year ended 31 December 2020, the Directors have adopted appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

The Group has announced its annual and interim results in a timely manner within the limits of three months and two months respectively after the end of the relevant financial periods, as laid down in the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communication with shareholders and investors. Since our listing on the Main Board of the Stock Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year ended 31 December 2020, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We held a number of site visits for investors.

To foster effective communication, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its websites and the website of the Stock Exchange.

Since October 2005, to enable the shareholders to better evaluate the operations and performance of the Group, the Group has been announcing quarterly financial information on turnover in due course after the relevant period ended.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communication between the Board and shareholders. Directors and senior management will make an effort to attend the annual general meeting. The chairman of the Board, as well as the respective chairmen of the Audit Committee and the Remuneration Committee and external auditor will usually be available during the annual general meeting to address shareholders' queries. All shareholders are given at least 20 clear business days' notice of the annual general meeting and they are encouraged to attend the annual general meeting and other shareholders' meetings. Questions from the shareholders at such meetings are encouraged and welcomed.

SHAREHOLDERS' RIGHTS

(i) Procedures for members to convene an extraordinary general meeting ("EGM")

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Board or the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the Shareholder(s) concerned himself (themselves) may do so in the same manner.

If the requisition is in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

The notice period to be given to all the registered members for consideration of the proposal raised by the shareholders concerned at an EGM varies according to the nature of the proposal, as follows:

– not less than twenty-one clear days' notice in writing if the proposal constitutes a special resolution of the Company; and

– not less than fourteen clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

(ii) Procedures for putting enquiries to the Board

Shareholder(s) may at any time put forward their enquiries to the Board by sending letter to: Company Secretary
China Shineway Pharmaceutical Group Limited
Suite 3109, 31/F
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

(iii) Procedures for putting forward proposals at shareholders' meetings

According to our articles of association, any shareholder(s) duly qualified to attend and vote at general meetings of the Company wish(es) to propose a person (other than himself) for election as a director (the "Candidate") at a general meeting of the Company, the following documents must be lodged at the head office or registered office: (i) a written notice of such proposed duly signed by the shareholder(s) concerned; and (ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected. The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

During the year, there is no significant change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

CODE OF CONDUCT

Employees of the Group have maintained high levels of ethical standards. The Group published an employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. Trainings on the contents of the employee handbook have been held regularly. The employees at all levels are expected to act in an honest, diligent and responsible manner.

AUDIT COMMITTEE REPORT

Dear Shareholders,

The Audit Committee formally met four times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgmental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response; and review the Group's adherence to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2020 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Cheung Chun Yue Anthony *(Chairman)*
Ms. Cheng Li
Prof. Luo Guoan

30 March 2021

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 144, 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 International Financial Reporting Standards ("IFRS Standards") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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 matter	How our audit addressed the key audit matter
Impairment assessment on goodwill	
We identified the impairment assessment on goodwill as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amount of the cash-generating unit to which goodwill has been allocated. At 31 December 2020, the Group has goodwill with cost of RMB159,291,000 relating to cash-generating units of research and development, manufacturing and trading of pharmaceutical products. Based on the assessment made by management of the Group, an impairment of RMB56,794,000 was recognised relating to a cash-generating unit of research and development, manufacturing and trading of pharmaceutical products during the year ended 31 December 2020. Details are disclosed in note 16 to the consolidated financial statements. The recoverable amounts of the cash-generating units were determined based on the value in use calculations which require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.	Our procedures in relation to the impairment assessment on goodwill included: • Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions; • Assessing the reasonableness of the key assumptions made by the management, including long-term growth rate and gross profit margin by comparing the prior year cash flow projections with the current year actual cash flows; • Testing the appropriateness of key inputs applied by the management in preparing the cash flow forecasts against historical performance, including revenue, cost of sales and operating expenses; • Assessing the key factors in determining the discount rates, including the Group's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in the pharmaceutical industry for reasonableness; and • Evaluating the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the value in use.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment and intangible assets	
We identified the impairment assessment on property, plant and equipment and intangible assets of a cash-generating unit as a key audit matter due to the involvement of significant judgements and assumptions by the Group's management in determining the value in use of these assets. In view that the related product of a subsidiary with principal activities of research and development, manufacturing and trading of pharmaceutical products will be removed from various provincial drug reimbursement lists in 2022 or before due to the change in drug reimbursement policy effective in 2020, the directors of the Company considered that indications of impairment of certain property, plant and equipment and intangible assets of the Group existed as at 31 December 2020. Accordingly, the management assessed whether there was any impairment of the property, plant and equipment and intangible assets by estimating the recoverable amount which is higher of fair value less costs of disposal and value in use of the cash-generating unit to which the assets belong to at 31 December 2020. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. At 31 December 2020, the Group has property, plant and equipment and intangible assets of RMB13,472,000 and nil, respectively, relating to cash-generating units of research and development, manufacturing and trading of pharmaceutical products. Based on the assessment made by management of the Group, an impairment of RMB4,073,000 and RMB168,734,000 was recognised for property, plant and equipment and intangible assets, respectively, during the year ended 31 December 2020. Details are disclosed in notes 14 and 15 to the consolidated financial statements.	Our procedures in relation to the impairment assessment on property, plant and equipment and intangible assets included: • Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions; • Challenging the key assumptions adopted by the management, including long-term growth rate and gross margin, by referring to the management's budget; • Assessing the key factors in determining the discount rates, including the cash-generating unit's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in the pharmaceutical industry for reasonableness; and • Comparing the expected changes in selling prices and direct costs used against historical performance and discussing with the management on revenue growth strategies and cost initiatives in respect of the cash-generating unit.

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 IFRS Standards issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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 Li Chi Tong.

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	**2,655,701**	2,705,996
Cost of sales		**(667,855)**	(724,431)
Gross profit		**1,987,846**	1,981,565
Other income		**86,056**	86,147
Investment income	6	**132,659**	119,471
Other gains and losses		**112**	7,979
Impairment losses on financial assets under expected credit loss model, net of reversal	7	**(6,915)**	(8,647)
Impairment loss on deposits for intangible assets	9	**–**	(36,000)
Impairment loss on property, plant and equipment	14	**(4,073)**	–
Impairment loss on intangible assets	15	**(168,734)**	–
Impairment loss on goodwill	16	**(56,794)**	–
Selling and distribution costs		**(1,185,469)**	(1,126,707)
Administrative expenses		**(273,359)**	(275,663)
Research and development costs		**(99,705)**	(102,715)
Finance costs	8	**(16,600)**	(2,658)
Profit before taxation	9	**395,024**	642,772
Taxation	10	**(99,991)**	(139,622)
Profit and total comprehensive income for the year		**295,033**	503,150
Earnings per share	13		
– Basic (RMB)		**39 cents**	64 cents
– Diluted (RMB)		**39 cents**	64 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,394,771**	1,493,926
Intangible assets	15	**36,959**	248,267
Goodwill	16	**102,497**	159,291
Deposit for acquisition of a subsidiary	35	**137,140**	–
Deferred tax assets	17	**23,104**	26,804
		1,694,471	1,928,288
Current assets			
Inventories	18	**442,999**	430,803
Trade receivables	19	**311,792**	260,026
Trade receivables backed by bank bills	19	**448,868**	414,285
Prepayments, deposits and other receivables	19	**72,320**	151,395
Tax recoverable		**48**	–
Pledged bank deposits	20	**300,000**	538
Bank balances and cash	20	**3,943,010**	3,946,006
		5,519,037	5,203,053
Current liabilities			
Trade payables	21	**164,377**	188,907
Trade payables backed by bank bills	21	**–**	538
Other payables and accrued expenses	21	**501,628**	429,208
Bank borrowings	22	**369,319**	398,392
Lease liabilities	23	**7,791**	4,658
Contract liabilities	21	**67,672**	47,271
Amounts due to related companies	24	**14,784**	15,935
Deferred income	25	**10,749**	53,616
Tax payable		**58,372**	39,482
		1,194,692	1,178,007
Net current assets		**4,324,345**	4,025,046
Total assets less current liabilities		**6,018,816**	5,953,334

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTES	**2020** **RMB'000**	2019 RMB'000
Non-current liabilities			
Lease liabilities	23	**15,028**	1,487
Deferred tax liabilities	17	**5,297**	46,997
Deferred income	25	**204,309**	127,923
		224,634	176,407
Net assets		**5,794,182**	5,776,927
Capital and reserves			
Share capital	26	**87,662**	87,662
Reserves		**5,706,520**	5,689,265
Total equity		**5,794,182**	5,776,927

The consolidated financial statements on pages 60 to 144 were approved and authorised for issue by the Board of Directors on 30 March 2021 and are signed on its behalf by:

XIN YUNXIA
DIRECTOR

LI HUIMIN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Statutory surplus reserve fund RMB'000 (Note b)	Discretionary surplus reserve fund RMB'000 (Note b)	Share options reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated profits RMB'000	Total equity RMB'000
At 1 January 2019	87,662	422,140	83,758	445,262	154,760	65,828	(304,256)	4,810,627	5,765,781
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	503,150	503,150
Transfers	–	–	–	3,453	–	–	–	(3,453)	–
Release upon deregistration of a subsidiary	–	–	–	(51,789)	–	–	–	51,789	–
Purchase of shares under share award scheme	–	–	–	–	–	–	(244,019)	–	(244,019)
Dividends paid (note 12)	–	–	–	–	–	–	–	(249,072)	(249,072)
Recognition of equity-settled share-based payments	–	–	–	–	–	1,087	–	–	1,087
Lapse of share options	–	–	–	–	–	(59,509)	–	59,509	–
At 31 December 2019	**87,662**	**422,140**	**83,758**	**396,926**	**154,760**	**7,406**	**(548,275)**	**5,172,550**	**5,776,927**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**295,033**	**295,033**
Transfers	**-**	**-**	**-**	**2,114**	**-**	**-**	**-**	**(2,114)**	**-**
Release upon deregistration of a subsidiary	**-**	**-**	**-**	**(3,684)**	**-**	**-**	**-**	**3,684**	**-**
Purchase of shares under share award scheme	**-**	**-**	**-**	**-**	**-**	**-**	**(36,437)**	**-**	**(36,437)**
Dividends paid (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(241,472)**	**(241,472)**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**131**	**-**	**-**	**131**
At 31 December 2020	**87,662**	**422,140**	**83,758**	**395,356**	**154,760**	**7,537**	**(584,712)**	**5,227,681**	**5,794,182**

Notes:

(a) Merger reserve of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") represents the difference between the net asset value of the subsidiaries and the nominal amount of the Company's shares which were issued as consideration for the subsidiaries at the time of the group reorganisation in preparation for the listing of the Company's shares.

(b) Statutory surplus reserve fund and discretionary surplus reserve fund are appropriated each year by certain subsidiaries in the People's Republic of China (the "PRC") on the basis of 10% of the profit after taxation as determined by the board of directors of the relevant subsidiaries and at the rate decided by the shareholders annually in accordance with the Articles of Associations ("Articles") of the relevant subsidiaries. According to the provision of the Articles, in normal circumstances, this reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 **RMB'000**	2019 RMB'000
Operating activities		
Profit before taxation	**395,024**	642,772
Adjustments for:		
Depreciation of property, plant and equipment	**165,838**	162,327
Amortisation of intangible assets	**42,574**	42,653
Impairment loss on deposits for intangible assets	**–**	36,000
Impairment loss on financial assets under expected credit loss model, net of reversal	**6,915**	8,647
Impairment loss on property, plant and equipment	**4,073**	–
Impairment loss on intangible assets	**168,734**	–
Impairment loss on goodwill	**56,794**	–
(Gain) loss on disposal of property, plant and equipment	**(2,062)**	143
Unrealised exchange loss (gain)	**6,183**	(2,285)
Interest income	**(87,826)**	(82,960)
Investment income from short-term financial products	**(927)**	(18,582)
Investment income from financial products	**(43,906)**	(17,929)
Government grant recognised as other income	**(8,500)**	(12,111)
Interest expenses	**16,600**	2,658
Share-based payments expense	**131**	1,087
Operating cash flows before movements in working capital	**719,645**	762,420
Increase in inventories	**(12,196)**	(25,305)
Increase in trade receivables	**(93,264)**	(146,835)
Decrease (increase) in prepayments, deposits and other receivables	**82,919**	(66,528)
Decrease in trade payables	**(25,068)**	(23,662)
Increase in other payables and accrued expenses	**65,278**	60,821
Increase (decrease) in contract liabilities	**20,401**	(35,411)
Cash generated from operations	**757,715**	525,500
PRC Enterprise Income Tax paid	**(96,149)**	(130,242)
Withholding tax paid	**(23,000)**	(27,262)
Net cash from operating activities	**638,566**	367,996

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020 RMB'000	2019 RMB'000
Investing activities			
Placement of financial products		**(2,494,930)**	(900,000)
Proceeds from redemption of financial products		**2,538,836**	917,929
Net proceeds from short-term financial products	6	**927**	18,582
Placement of pledged bank deposits		**(300,000)**	(538)
Withdrawal of pledged bank deposits		**538**	16,693
Interest received		**83,982**	80,868
Government grants received		**42,019**	27,092
Proceeds from disposal of property, plant and equipment		**26,204**	319
Purchase of property, plant and equipment		**(66,027)**	(88,402)
Acquisition of an intangible asset		**–**	(3,000)
Deposit for acquisition of a subsidiary		**(137,140)**	–
Net cash (used in) from investing activities		**(305,591)**	69,543
Financing activities			
New borrowings raised		**732,771**	398,392
Repayment of bank borrowings		**(761,844)**	–
Dividends paid		**(241,472)**	(249,072)
Repayment to related companies		**(1,151)**	–
Repurchase of shares held for share award scheme		**(36,437)**	(244,019)
Repayment of lease liabilities		**(4,661)**	(3,967)
Interest paid		**(16,994)**	(2,025)
Net cash used in financing activities		**(329,788)**	(100,691)
Net increase in cash and cash equivalents		**3,187**	336,848
Cash and cash equivalents at beginning of the year		**3,946,006**	3,611,485
Effect of exchange rate changes of cash and cash equivalents		**(6,183)**	2,291
Effect of impairment losses on bank deposits		**–**	(4,618)
Cash and cash equivalents at end of the year, representing bank balances and cash		**3,943,010**	3,946,006

1. GENERAL INFORMATION

The Company is a listed company registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 August 2002 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The immediate holding and its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability. Its ultimate controlling party is Mr. Li Zhenjiang, who is also the Chairman of the Group. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are engaged in research and development, manufacturing and trading of Chinese pharmaceutical products.

Certain comparative figures have been reclassified to conform with the current year's presentation of the consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS STANDARDS")

Amendments to IFRS Standards 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 IFRS Standards" and the following amendments to IFRS Standards issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

Application of Amendments to IAS 1 and IAS 8 "Definition of Material"

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS STANDARDS") *(Continued)*

Amendments to IFRS Standards that are mandatorily effective for the current year *(Continued)*

Except as described above, the application of the "Amendments to References to the Conceptual Framework in IFRS Standards" and the amendments to IFRS Standards 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.

New and amendments to IFRS Standards in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRSs 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 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

Except for the amendments to IFRS standards mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS STANDARDS") *(Continued)*

New and amendments to IFRS Standards in issue but not yet effective *(Continued)*

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 "Financial Instruments: Presentation".

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

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 IFRS Standards issued by the IASB. 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 (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

The consolidated financial statements have been prepared on the historical cost basis 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 IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 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.

The principal accounting policies are set out below.

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.

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

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

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

3.2 Significant accounting policies *(Continued)*

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.

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 acquire 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 International Accounting Standards Committee's "Framework for the Preparation and Presentation of Financial Statements" (replaced by the "Conceptual Framework for Financial Reporting" issued in September 2010).

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)

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

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

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

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" 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 IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net 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.

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

3.2 Significant accounting policies *(Continued)*

Goodwill

Goodwill arising from 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 (or groups of cash-generating units) 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.

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

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

Property, plant and equipment

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

Buildings and plant and machineries 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.

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

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

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 construction in progress less their residual values over their useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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 IFRS 15 "Revenue from contracts with customers". Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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 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 on the principal amount outstanding.

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

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income 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 and is included in the “investment income” line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, other receivables, pledged bank deposits and bank balances) which are subject to impairment assessment under IFRS 9 “Financial Instruments”. 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. Assessments 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.

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)*

The Group always recognises lifetime ECL for trade receivables. ECL is assessed separately for receivables fully backed by bank bills and not backed by bank bills. To measure the ECL, trade receivables not backed by bank bills are assessed for debtors with significant balances or credit-impaired balances are assessed individually, the remaining trade receivables not backed by bank bills are assessed on a collectively basis. Debtors with trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bills.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, 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.

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; and

- 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.

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)*

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 aforegoing, 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.

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.

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

3. 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)*

(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; or

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

(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 three 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.

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)*

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 not backed by bank bills 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;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

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

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

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

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by the Group 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.

Purchase 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 payables, other payables, bank borrowings and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

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.

Intangible assets

Intangible assets acquired separately

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

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 followings 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 charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is 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 and recognised separately from goodwill 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 cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or 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 (including right-of-use assets) and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment(including right-of-use assets) and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

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 (including right-of-use assets) and intangible assets (other than goodwill) *(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 cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the 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)*

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.

The Group recognises revenue on sale of pharmaceutical products at a point in time when control of the goods has transferred, being when the goods are delivered to the customer. Transportation and other related activities that occur before customers obtain control of the related goods are considered as fulfilment activities.

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.

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)*

Variable consideration (Continued)

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.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

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

3.2 Significant accounting policies *(Continued)*

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 IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

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.

The Group applies practical expedient not to separate non-lease components from lease components, and instead accounts for the lease components and any associated non-lease components is a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line 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.

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

Right-of-use assets 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 in “property, plant and equipment”, the same line item within which the corresponding underlying assets would be presented if they were owned.

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)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 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 represent fixed payments (including in-substance fixed payment) less any lease incentives receivable.

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

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

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

3.2 Significant accounting policies *(Continued)*

Government grants

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

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

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 are recognised as expenses 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 IFRS 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, annual leave and sick leave) after deducting any amount already paid.

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

3.2 Significant accounting policies *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Share award scheme

The consideration paid by the trustee for purchasing the Company's shares from the market is presented as "shares held for share award scheme" and the amount is deducted from total equity.

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 taxation 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.

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

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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 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 the 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 deferred tax 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.

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

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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 IAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary difference arising from subsequent revisions to the carrying amounts of the right-of-use assets and lease liabilities resulting from remeasurement of the lease liabilities and lease modifications that are not subject to the 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.

Current and deferred tax are recognised in profit or loss.

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.

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

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 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency (i.e. RMB), using exchange rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (translation reserve).

4. 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.

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or a group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances of which results in downward revision of future cash or upward revision of discount rate, a material impairment loss or a further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations for research and development, manufacturing and trading of Chinese pharmaceutical products.

As at 31 December 2020, the carrying amount of goodwill is RMB102,497,000 (2019: RMB159,291,000) (net of accumulated impairment loss of RMB56,794,000 (2019: nil)). Details of the recoverable amount calculation are disclosed in note 16.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of property, plant and equipment and intangible assets

When there is indication that property, plant and equipment and intangible assets with finite useful lives may be impaired, the Group estimates the recoverable amount of the relevant assets or the cash-generating unit to which the asset belongs. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash or upward revision of discount rate, a material impairment loss or a further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations for research and development, manufacturing and trading of Chinese pharmaceutical products.

As at 31 December 2020, the carrying amounts of property, plant and equipment and intangible assets of a cash-generating unit subject to impairment assessment are RMB13,472,000 and nil (2019: RMB17,929,000 and RMB204,317,000), respectively, after taking into account the impairment losses of RMB4,073,000 and RMB168,734,000 (2019: nil and nil) in respect of property, plant and equipment and intangible assets that have been recognised, respectively. Details of the impairment of property, plant and equipment and intangible assets are disclosed in notes 14 and 15, respectively.

5. REVENUE AND SEGMENT INFORMATION

Operating segments

The Group is engaged in a single segment in research and development, manufacturing and trading of Chinese pharmaceutical products. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the Chairman of the Board of Directors of the Group, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures are presented.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2020 **RMB'000**	2019 RMB'000
Injections	**1,102,444**	1,225,807
Soft capsules	**462,090**	442,031
Granules	**405,960**	388,752
Traditional Chinese medicine formula granules	**556,327**	501,906
Others	**128,880**	147,500
	2,655,701	2,705,996

The Group sells pharmaceutical products to the wholesale market and directly to customers. Revenue is recognised at a point in time when control of the products has transferred to customers, being at the point the products are delivered to the customer. The normal credit term is six months to one year upon delivery while certain customers make advanced payment before delivery. Only products with quality defects are allowed to be returned to the Group within a specified period of time upon receipt by the customers. The transaction price has been estimated taking into account of variable consideration such as discount and rebates.

Contracts with customers with unsatisfied performance obligations have original expected duration of one year or less. As permitted under IFRS 15, the aggregate amount of transaction price allocated to these unsatisfied contracts is not disclosed.

Geographical information

Sales of the Group to external customers were substantially made in the PRC including Hong Kong.

All non-current assets of the Group including goodwill except deferred tax assets are located in the PRC including Hong Kong.

Information about major customers

For each of the year ended 31 December 2020 and 2019, there was no customer with revenue accounted for more than 10% of the Group's total revenue.

6. INVESTMENT INCOME

	2020 RMB'000	2019 RMB'000
Interest on bank deposits	**87,826**	82,960
Investment income from short-term financial products (note)	**927**	18,582
Investment income from financial products (note)	**43,906**	17,929
	132,659	119,471

Note: The financial products and short-term financial products are measured at FVTPL for both years. The redemption amount (including the return) of such products is related to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the difference between initial investment amounts and redemptions amounts. In the opinion of the directors of the Company, the short-term financial products are large in amounts, with quick turnover and short maturities ranging from one to three months. Accordingly, the cash receipts and payments for these short-term financial products are presented on a net basis in the consolidated statement of cash flows.

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2020 RMB'000	2019 RMB'000
Impairment losses on trade receivables	**5,800**	4,029
Impairment losses on trade receivables backed by bank bills	**1,115**	–
Impairment losses on bank deposits	**–**	4,618
	6,915	8,647

Details of impairment assessment are set out in note 32.

8. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on loans related to bills discounted with recourse	**8,631**	1,694
Interest on bank loans	**7,766**	633
Interest on lease liabilities	**203**	331
	16,600	2,658

9. PROFIT BEFORE TAXATION

	2020 RMB'000	2019 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (see note 11)	9,153	12,262
Other staff costs	284,358	297,305
Other staff's pension costs	32,947	55,006
Share-based payments expense for other staff	131	272
	326,589	364,845
Less: Capitalised in inventories	(111,223)	(132,517)
	215,366	232,328
Depreciation of property, plant and equipment	165,838	162,327
Amortisation of intangible assets	42,574	42,653
Total depreciation and amortisation	208,412	204,980
Less: Capitalised in inventories	(159,252)	(151,630)
	49,160	53,350
Auditor's remuneration	1,751	1,864
Cost of inventories recoginsed as an expense (included in cost of sales)	667,855	724,431
(Gain) loss on disposal of property, plant and equipment (included in other gains and losses)	(2,062)	143
Net exchange loss (gain) (included in other gains and losses)	1,950	(8,122)
Government subsidies (included in other income) (note a)	(74,988)	(81,629)
Impairment loss on deposits for intangible assets (note b)	–	36,000

9. PROFIT BEFORE TAXATION *(Continued)*

Notes:

(a) The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. During the year ended 31 December 2020, government subsidies of (a) RMB66,170,000 (2019: RMB69,518,000) represent incentives received in relation to engagement of the subsidiaries of the Company in high technology business. The grants were unconditional, approved and received during the year; (b) RMB8,500,000 (2019: RMB12,111,000) represent recognition of deferred income upon completion of related research activities and development projects (note 25); and (c) RMB318,000 (2019: nil) represent Covid-19-related subsidies in relation to Employment Support Scheme provided by the Hong Kong government.

(b) The patents' development process had taken several years and there was no breakthrough in the project. Management decided to terminate the project during the year ended 31 December 2019. An impairment of RMB36,000,000 had been recognised during the year ended 31 December 2019 accordingly.

10. TAXATION

	2020	2019
	RMB'000	RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT"):		
Current tax	**116,297**	120,501
(Over)underprovision in prior years	**(1,306)**	4,101
Withholding tax on distributed profits	**23,000**	27,262
	137,991	151,864
Deferred tax (note 17)	**(38,000)**	(12,242)
	99,991	139,622

10. TAXATION *(Continued)*

The taxation charge for the year can be reconciled to the profit before taxation as follows:

	2020 RMB'000	2019 RMB'000
Profit before taxation	**395,024**	642,772
Tax at the applicable tax rate of 25% (2019: 25%)	**98,756**	160,693
Tax effect of expenses not deductible for tax purposes	**40,896**	22,337
Tax effect of income not taxable for tax purposes	**(3,352)**	(3,869)
Tax losses not recognised	**10,922**	16,014
Utilisation of tax losses previously not recognised	**(2,142)**	(1,508)
Income tax on concessionary rates	**(56,793)**	(78,260)
Withholding tax on distributed profits of subsidiaries operating in the PRC	**13,000**	10,102
Withholding tax on undistributed profits of subsidiaries operating in the PRC	**–**	10,000
(Over) underprovision in prior years	**(1,306)**	4,101
Others	**10**	12
Taxation charge for the year	**99,991**	139,622

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. As the Company and its subsidiaries operating in Hong Kong do not have assessable profits for both years, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

A subsidiary which is operating in Western China has been granted tax concession by the local tax bureau and is entitled to PRC EIT at concessionary rate of 15% for both years. Certain subsidiaries which are recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both years. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

According to a joint circular of the Ministry of Finance and State Administration of Taxation, Cai Shui 2011 No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the New Law and Article 91 of its Detailed Implementation Rules.

10. TAXATION *(Continued)*

Under the applicable corporate tax law in Australia, income tax is charged at 27.5% (2019: 27.5%) of the estimated assessable profits. No provision for Australian income tax has been made in the consolidated financial statements as the subsidiary operating in Australia has no assessable profits for both years.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the CO, is as follows:

	Fees RMB'000	Salaries and allowance RMB'000	Pension costs RMB'000	Total remuneration RMB'000
Year ended 31 December 2020				
Executive directors:				
Li Zhenjiang	650	3,263	15	3,928
Xin Yunxia	375	1,882	15	2,272
Li Huimin	67	892	15	974
Chen Zhong	156	1,382	15	1,553
Non-executive director:				
Zhou Wencheng (appointed on 1 October 2020)	33	–	–	33
Independent non-executive directors:				
Luo Guoan	131	–	–	131
Cheng Li	131	–	–	131
Cheung Chun Yue, Anthony	131	–	–	131
	1,674	7,419	60	9,153

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

	Fees RMB'000	Salaries and allowance RMB'000	Pension costs RMB'000	Share-based payments expense RMB'000	Total remuneration RMB'000
Year ended 31 December 2019					
Executive directors:					
Li Zhenjiang	301	4,359	16	–	4,676
Xin Yunxia	174	2,514	16	–	2,704
Li Huimin	72	1,120	16	–	1,208
Chen Zhong	116	1,676	16	–	1,808
Xu Sheng (ceased to act on 2 July 2019)	–	600	31	815	1,446
Independent non-executive directors:					
Luo Guoan	140	–	–	–	140
Cheng Li	140	–	–	–	140
Cheung Chun Yue, Anthony (appointed on 1 January 2019)	140	–	–	–	140
Sun Liutai (ceased to act on 1 January 2019)	–	–	–	–	–
	1,083	10,269	95	815	12,262

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Mr. Xu Sheng was the chief executive of the Company up to 2 July 2019 and Mr. Li Zhenjiang was appointed as the chief executive of the Company on 2 July 2019. Their emoluments disclosed above included those for services rendered by them as chief executive.

Mr. Sun Liutai ceased to serve as independent non-executive director of the Company on 1 January 2019. No remuneration was paid to him during the year ended 31 December 2019.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Of the five individuals with the highest emoluments in the Group, three (2019: four) were directors, including Mr. Li Zhenjiang as the chief executive of the Company, whose emoluments are included in the disclosures above. Details of the remuneration for the year of the remaining two (2019: one) highest paid individuals in the capacity as an employee are as follows:

	2020	2019
	RMB'000	RMB'000
Salaries and other benefits	**2,749**	1,613
Pension costs	**30**	16
	2,779	1,629

The emoluments were within the following band:

	Number of employees	
	2020	2019
HKD1,500,001 to HKD2,000,000	**2**	1

During both years, no remuneration was paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during both years.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the Group's operating results, individual performance and market statistics.

12. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends recognised as distributions during the year:		
Final dividend paid for 2019 of RMB12 cents (2019: paid for 2018 of RMB12 cents) per share	**90,552**	93,713
Special dividend paid for 2019 of RMB9 cents (2019: paid for 2018 of RMB9 cents) per share	**67,914**	70,284
Interim dividend paid for 2020 of RMB11 cents (2019: RMB11 cents) per share	**83,006**	85,075
	241,472	249,072

	2020 RMB'000	2019 RMB'000
Dividends proposed:		
Proposed final dividend of RMB21 cents (2019: RMB12 cents) per share	**158,466**	91,396
Proposed special dividend of nil (2019: RMB9 cents) per share	**–**	68,547
	158,466	159,943

The final dividend of RMB21 cents per share, in an aggregate amount of RMB158,466,000, has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the annual general meeting. The aggregate amount of RMB158,466,000 (2019: RMB159,943,000) has been calculated on the basis of 827,000,000 (2019: 827,000,000) shares in issue less 72,400,000 (2019: 65,368,000) shares held for share award scheme as at 31 December 2020.

13. EARNINGS PER SHARE

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

	2020	2019
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**295,033**	503,150

	Number of shares	
	2020	2019
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic earnings per share	**756,747,221**	780,818,474
Effect of dilutive potential ordinary shares:		
Share options	**–**	128,513
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of diluted earnings per share	**756,747,221**	780,946,987

The computation of diluted earnings per share does not assume the exercise of all the Company's options at exercise prices of HK$8.39 and HK$7.21 (2019: certain options at exercise prices of HK$11.84, HK$9.56 and HK$8.39) because the exercise prices of those options were higher than the average market price for shares for the year ended 31 December 2020.

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets										
	Leasehold land	Leased properties	Leased motor vehicles	Leased machineries	Sub-total	Owned properties	Plant and machineries	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2019	173,209	2,605	–	–	175,814	1,199,655	1,173,759	74,540	2,633	192,516	2,818,917
Currency realignment	–	–	–	–	–	–	–	23	–	–	23
Additions	–	2,746	–	–	2,746	6,276	25,025	12,172	7	31,008	77,234
Disposals	–	–	–	–	–	(150)	(3,986)	–	(2)	–	(4,138)
Reclassifications	–	–	–	–	–	74,037	30,561	–	–	(104,598)	–
At 31 December 2019	173,209	5,351	–	–	178,560	1,279,818	1,225,359	86,735	2,638	118,926	2,892,036
Additions	7,761	4,194	3,559	5,821	21,335	1,645	50,559	6,872	1	14,486	94,898
Disposals	(14,793)	–	–	–	(14,793)	(11,185)	–	(230)	–	(425)	(26,633)
Reclassifications	–	–	–	–	–	1,106	16,281	105	–	(17,492)	–
At 31 December 2020	166,177	9,545	3,559	5,821	185,102	1,271,384	1,292,199	93,482	2,639	115,495	2,960,301
DEPRECIATION AND IMPAIRMENT											
At 1 January 2019	–	–	–	–	–	427,389	748,721	61,210	2,122	–	1,239,442
Currency realignment	–	–	–	–	–	–	–	17	–	–	17
Charge for the year	7,055	1,699	–	–	8,754	59,440	88,539	5,330	264	–	162,327
Eliminated on disposals	–	–	–	–	–	(41)	(3,633)	–	(2)	–	(3,676)
At 31 December 2019	7,055	1,699	–	–	8,754	486,788	833,627	66,557	2,384	–	1,398,110
Charge for the year	6,740	2,222	–	–	8,962	61,217	90,224	5,358	77	–	165,838
Impairment loss recognised in profit or loss	–	–	–	–	–	–	3,503	488	82	–	4,073
Eliminated on disposals	(1,330)	–	–	–	(1,330)	(1,038)	–	(123)	–	–	(2,491)
At 31 December 2020	12,465	3,921	–	–	16,386	546,967	927,354	72,280	2,543	–	1,565,530
CARRYING VALUES											
At 31 December 2020	153,712	5,624	3,559	5,821	168,716	724,417	364,845	21,202	96	115,495	1,394,771
At 31 December 2019	166,154	3,652	–	–	169,806	793,030	391,732	20,178	254	118,926	1,493,926

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

Leasehold land/leased properties/ leased motor vehicles/leased machineries	Over the shorter of the term of the lease or 3 to 50 years
Owned properties	20 years or over the unexpired lease terms, whichever is shorter
Plant and machineries	3 to 10 years
Office equipment	5 years
Motor vehicles	3 years

The Group as lessee

Right-of-use assets (included in the property, plant and equipment)

	2020 **RMB'000**	2019 RMB'000
Expense relating to short-term leases	**1,254**	1,348
Total cash outflow for leases	**6,118**	5,646

For both years, the Group leases various offices, hotel rooms, staff quarter, motor vehicles, machineries, retail shop and lands for its operations. Lease contracts are entered into for fixed term of 1 to 3 years. 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.

The Group regularly entered into short-term leases for warehouses and offices. 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.

In addition, the Group own 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 land. Lump sum payments were made upfront to acquire these property interests.

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Impairment assessment

During the year, management of the Group performed an impairment assessment on certain property, plant and equipment with carrying amount of RMB13,472,000 (2019: RMB17,929,000), after taking into account the impairment losses of RMB4,073,000 (2019: nil), of a cash-generating unit which is engaged in research and development, manufacturing and trading of pharmaceutical products, Unit B, in accordance with IAS36. Based on the value in use calculation, an impairment of RMB4,073,000 has been recognised against the carrying amount of property, plant and equipment during the year ended 31 December 2020 (2019: nil). No impairment has been recognised for leasehold land and owned properties of RMB1,590,000 and RMB11,883,000 as at 31 December 2020, respectively, since their recoverable amounts which is determined using fair value less cost of disposal is higher than their carrying amounts. Particulars regarding impairment testing are disclosed in note 16.

15. INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2019	427,157
Addition	3,000
At 31 December 2019 and 2020	430,157
AMORTISATION AND IMPAIRMENT	
At 1 January 2019	139,237
Charge for the year	42,653
At 31 December 2019	181,890
Charge for the year	42,574
Impairment loss recognised in profit or loss	168,734
At 31 December 2020	393,198
CARRYING VALUES	
At 31 December 2020	36,959
At 31 December 2019	248,267

15. INTANGIBLE ASSETS *(Continued)*

The intangible assets represent patents with finite useful lives which were acquired from third parties or purchased as a part of a business combination in prior years. Such intangible assets are amortised on a straight-line basis over the useful lives from 10 to 20 years.

During the year, management of the Group performed an impairment assessment on certain intangible assets with carrying amount of nil (2019: RMB204,317,000), after taking into account the impairment losses of RMB168,734,000 (2019: nil), of a cash-generating unit which is engaged in research and development, manufacturing and trading of pharmaceutical products, Unit B, in accordance with IAS36. Based on the value in use calculation, an impairment of RMB168,734,000 has been recognised against the carrying amount of intangible assets during the year ended 31 December 2020 (2019: nil). Particulars regarding impairment testing are disclosed in note 16.

16. GOODWILL

	RMB'000
COST	
At 1 January 2019, 31 December 2019 and 31 December 2020	159,291
IMPAIRMENT	
At 1 January 2019 and 31 December 2019	–
Impairment loss recognised in profit or loss	56,794
At 31 December 2020	56,794
CARRYING VALUES	
At 31 December 2020	102,497
At 31 December 2019	159,291

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units including certain subsidiaries with principal activities of manufacturing and trading of pharmaceutical products ("Unit A") and a subsidiary with principal activities of research and development, manufacturing and trading of pharmaceutical products ("Unit B").

16. GOODWILL *(Continued)*

	2020 **RMB'000**	2019 RMB'000
Unit A	**102,497**	102,497
Unit B	**–**	56,794
	102,497	159,291

In addition to goodwill above, property, plant and equipment and intangible assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective cash-generating units for the purpose of impairment assessment.

The recoverable amounts of the above cash-generating units were determined based on value in use calculations. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year (2019: five-year) period.

The following table sets out the key assumptions for the value in use calculation of those cash-generating units.

	Unit A	**Unit B**
Pre-tax discount rate		
At 31 December 2020	11%	18.2%
At 31 December 2019	10.2%	13.0%
Long-term growth rate		
At 31 December 2020	1%	2.6%
At 31 December 2019	1%	0%
Gross profit margin		
At 31 December 2020	75%	88%
At 31 December 2019	73%	90%

16. GOODWILL *(Continued)*

Pre-tax discount rate applied reflects the current market assessments of the time value of money and the risks specific to each of the cash-generating units. The change in pre-tax discount rate of Unit B as at 31 December 2020 is arising from the change of comparable companies adopted in the pre-tax discount rate calculation due to the removal of the related product if Unit B from various provincial drug reimbursement list in 2022 or before.

Cash flows beyond the five-year (2019: five-year) period have been extrapolated using the estimated constant growth rates stated above which do not exceed the average growth rate for the relevant industry.

Unit A

During the year ended 31 December 2020 and 31 December 2019, management of the Group determines that there is no impairment on Unit A. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Unit A to exceed the recoverable amount of Unit A. If the discount rate was increased by 5% (2019: 5%), while other parameters remain constant, the recoverable amount of Unit A would still exceed its carrying amount.

Unit B

Considering the related product of Unit B will be removed from various provincial drug reimbursement lists in 2022 or before due to the change in drug reimbursement policy effective in 2020, the directors of the Company consider the demand of the products would decrease and have revised Unit B's cash flow projection and have consequently determined impairment of goodwill directly related to Unit B amounting to RMB56,794,000. Goodwill related to Unit B amounting to RMB56,794,000 has been fully impaired and impairment amounting to RMB4,073,000 and RMB168,734,000 have been allocated pro rata to property, plant and equipment and intangible assets, respectively, to the extent the carrying amount of the asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero.

17. 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	**23,104**	26,804
Deferred tax liabilities	**(5,297)**	(46,997)
	17,807	(20,193)

The followings are the major deferred tax assets (liabilities) recognised and movement thereon during the current and prior years:

	Accelerated tax depreciation RMB'000	**Deferred income** RMB'000	**Fair value adjustment arising from acquisition of subsidiaries** RMB'000	**Withholding tax on undistributed profits** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2019	4,394	18,927	(42,666)	(17,160)	4,070	(32,435)
(Charge) credit to profit or loss	(138)	(397)	6,466	(10,000)	(849)	(4,918)
Withholding tax paid	–	–	–	17,160	–	17,160
At 31 December 2019	4,256	18,530	(36,200)	(10,000)	3,221	(20,193)
(Charge) credit to profit or loss	(138)	(1,086)	31,692	–	(2,468)	28,000
Withholding tax paid	–	–	–	10,000	–	10,000
At 31 December 2020	4,118	17,444	(4,508)	–	753	17,807

At the end of the reporting period, the Group has unused tax losses of RMB331,595,000 (2019: RMB330,299,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of RMB204,060,000 (2019: RMB206,417,000) that will expire in 5 years (2019: 5 years). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributed profits of the PRC subsidiaries amounting to RMB4,818,796,000 (2019: RMB4,469,335,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**108,471**	116,884
Work in progress	**155,167**	141,461
Finished goods	**179,361**	172,458
	442,999	430,803

19. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**321,621**	264,055
Less: Allowance for ECL	**(9,829)**	(4,029)
	311,792	260,026
Trade receivables backed by bank bills	**449,983**	414,285
Less: Allowance for ECL	**(1,115)**	–
	448,868	414,285
	760,660	674,311

The trade receivables and trade receivables backed by bank bills are from contracts with customers.

As at 1 January 2019, trade receivables and trade receivables backed by bank bills (before allowance for ECL) from contracts with customers amounted to RMB174,034,000 and RMB357,471,000, respectively.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows a credit period normally ranging from six months to one year to its trade customers. The following is an aged analysis of trade receivables and trade receivables backed by bank bills, net of allowance for ECL, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2020 **RMB'000**	2019 RMB'000
Within 6 months	**708,332**	635,996
Over 6 months but less than 1 year	**42,134**	32,834
Over 1 year but less than 2 years	**9,852**	5,481
More than 2 years	**342**	–
	760,660	674,311

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB49,582,000 (2019: RMB10,224,000) which are past due as at the reporting date. Out of the past due balances, RMB20,214,000 (2019: RMB9,310,000) has been past due 90 days or more and is not considered as in default based on repayment records of those customers and continuous business with the Group.

As at 31 December 2020, total bills received with carrying amount amounting to RMB448,868,000 (2019: RMB414,285,000) are held by the Group for future settlement of trade receivables of which certain bills amounting to nil (2019: RMB118,392,000) were further discounted by the Group. All bills received by the Group are with a maturity period of less than one year.

Prepayments, deposits and other receivables of the Group mainly represent interest income receivables of RMB7,981,000 (2019: RMB4,137,000), prepayments of RMB43,988,000 (2019: RMB105,891,000) and value added tax recoverable of RMB15,036,000 (2019: RMB18,605,000).

Details of impairment assessment of trade and other receivables are set out in note 32.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Transfer of financial assets

The following were the Group's bill received that were transferred to banks by discounting these receivables on a full recourse basis. As the Group had not transferred the significant risks and rewards relating to these receivables, it continued to recognise the full carrying amount of the receivables and had recognised the cash received on the transfer as a collateralised borrowing (see note 22). These financial assets were carried at amortised cost in the Group's consolidated statement of financial position.

Trade receivables backed by bank bills discounted to banks with full resource:

	2020	2019
	RMB'000	RMB'000
Carrying amount of transferred assets	**–**	118,392
Carrying amount of associated liabilities	**–**	(118,392)
Net position	**–**	–

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2020, bank deposits of RMB300,000,000 (2019: RMB538,000) are pledged to banks to secure bank borrowings of the Group amounting to RMB299,319,000 (2019: bills payables of the Group amounting to RMB538,000). The pledged bank deposits are non-interest bearing. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings (2019: bills payables).

At the end of the reporting period, bank balances and cash of RMB3,897,864,000 (2019: RMB3,750,577,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The effective interest rate on bank balances ranged from 0.01% to 3.19% (2019: 0.01% to 3.85%) per annum as at 31 December 2020.

Details of impairment assessment of bank balances are set out in note 32.

21. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Trade payables	164,377	188,907
Trade payables backed by bank bills	–	538
	164,377	189,445

An aged analysis of the Group's trade payables and trade payables backed by bank bills at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Within 6 months	158,903	173,007
Over 6 months but less than 1 year	1,117	2,899
Over 1 year but less than 2 years	1,607	1,302
Over 2 years but less than 3 years	989	1,264
Over 3 years	1,761	10,973
	164,377	189,445

The average credit period taken for trade purchase ranges from two months to six months.

Other payables and accrued expenses of the Group mainly represent payables for acquisition of property, plant and equipment of RMB81,253,000 (2019: RMB88,789,000), accrued expenses payable of RMB277,112,000 (2019: RMB205,457,000), deposits received of RMB88,930,000 (2019: RMB86,005,000) and value added tax payable of RMB27,232,000 (2019: RMB31,308,000).

21. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES *(Continued)*

The Group has recognised the following revenue-related contract liabilities:

	2020	2019
	RMB'000	RMB'000
Contract liabilities	**67,672**	47,271

The Group receives certain amount of the contract values as receipt in advance upon receiving the purchase orders from customers. The receipt in advance results in contract liabilities being recognised until the customer obtains control of the goods.

As at 1 January 2019, contract liabilities amounted to RMB82,682,000. The contract liabilities as at 1 January 2019 and 1 January 2020 were fully recognised as revenue during the year ended 31 December 2019 and 31 December 2020, respectively.

22. BANK BORROWINGS

	2020	2019
	RMB'000	RMB'000
Bank loans, unsecured	**70,000**	280,000
Loans related to bills discounted with recourse	**299,319**	118,392
	369,319	398,392

As at 31 December 2020, the bank loans of RMB70,000,000 (2019: RMB280,000,000) are unsecured and repayable within one year and carries a fixed interest rate at 2.05% (2019: 3.70%) per annum.

As at 31 December 2020, the loans related to bills discounted with recourse of RMB299,319,000 are related to intercompany bills discounted, pledged by bank deposits and repayable within one year and carry a fixed interest rate at 2.72% per annum.

As at 31 December 2019, the loans related to bills discounted with recourse of RMB118,392,000 carried fixed interest rates ranging from 2.55% to 2.69% per annum and were with a maturity period of less than one year.

23. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	**7,791**	4,658
Within a period of more than one year but not more than two years	**7,704**	935
Within a period of more than two years but not more than five years	**7,324**	552
	22,819	6,145
Less: Amount due for settlement with 12 months shown under current liabilities	**(7,791)**	(4,658)
Amount due for settlement after 12 months shown under non-current liabilities	**15,028**	1,487

The weighted average incremental borrowing rates applied to lease liabilities is at range from 4.75% to 5.35% (2019: from 4.75% to 5.35%).

	2020 RMB'000	2019 RMB'000
Lease obligations that are denominated in currency other than the functional currency of the relevant group entity are set out below:		
HK$	**1,599**	1,907

24. AMOUNTS DUE TO RELATED COMPANIES

	2020 RMB'000	2019 RMB'000
Shineway (Sanhe) Property Development Limited ("Shineway Sanhe")	**9,008**	9,008
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**5,776**	6,927
	14,784	15,935

Shineway Sanhe and Shineway Medical are ultimately controlled by the controlling shareholder of the Company.

The amounts due to related companies are non-trade, unsecured, interest-free and repayable on demand.

25. DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
At 1 January	**181,539**	166,558
Addition during the year	**42,019**	27,092
Recognised as other income	**(8,500)**	(12,111)
At 31 December	**215,058**	181,539
Analysed for reporting purpose as		
Current liabilities	**10,749**	53,616
Non-current liabilities	**204,309**	127,923
	215,058	181,539

Included in the deferred income at 31 December 2020 are government subsidies amounting to RMB115,109,000 (2019: RMB75,107,000) in relation to research and development expenses on certain new products which are not yet recognised. The subsidies are recognised as deferred income until the conditions attaching to the subsidies have been fulfilled. During the year, the Group received RMB42,019,000 (2019: RMB21,112,000) government subsidies in relation to research and development expenses and recognised RMB2,017,000 (2019: RMB7,232,000) in profit or loss.

25. DEFERRED INCOME *(Continued)*

Included in the deferred income at 31 December 2020 is a government subsidy amounting to RMB48,845,000 (2019: RMB52,578,000) received in 2011 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2014 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB3,733,000 (2019: RMB3,733,000) is transferred to profit or loss during the year.

Included in the deferred income at 31 December 2020 is a government subsidy amounting to RMB51,104,000 (2019: RMB53,854,000) received in 2018 and 2019 in relation to a development project, including the construction of production facilities, in 楚雄州 (Chuxiong Prefecture) in Yunnan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2019 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. During the year ended 31 December 2019, the Group received RMB5,980,000 government subsidies in relation to the development project (2020: nil). Deferred income amounting to RMB2,750,000 (2019: RMB1,146,000) is transferred to profit or loss during the year.

26. SHARE CAPITAL

	Number of shares '000	Amount '000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2019, 31 December 2019 and 31 December 2020	**5,000,000**	HK$500,000
Issued and fully paid:		
At 1 January 2019, 31 December 2019 and 31 December 2020	**827,000**	HK$82,700
Shown in the financial statement as		RMB87,662

There were no changes in the Company's authorised, issued and fully paid share capital during both years.

During the year ended 31 December 2020, 7,032,000 (2019: 35,501,000) shares were purchased by the trustee from the market. Detail are set out in note 27.

27. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company has a share option scheme which was adopted pursuant to a resolution passed on 10 November 2004 (the "Old Scheme") for a period of 10 years. A new share option scheme (the "New Scheme") was adopted at the extraordinary general meeting of the Company held on 29 May 2015 for a period of 10 years. The primary purpose of the Old Scheme and New Scheme is to provide incentives to:

(a) director or employee of any members of the Group;

(b) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or employee of any member of the Group;

(c) any consultant, professional and other advisers to any member of the Group;

(d) any chief executive or substantial shareholder of any member of the Group;

(e) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(f) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The Old Scheme expired on 9 November 2014 and the New Scheme will expire on 28 May 2025.

As at 31 December 2020, number of shares in respect of which options has been granted and remained outstanding under the New Scheme was 4,000,000 (2019: 4,000,000), representing 0.48% (2019: 0.48%) of the shares of the Company in issue at that date.

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

The total number of shares in respect of which options may be granted under the Old Scheme and New Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per grant. The exercise period of option granted shall not be more than ten years from the date of grant. The exercise price was determined by the directors of the Company, and would not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options granted under the Old Scheme are as follows:

Date of grant	Vesting period	Vesting proportion	Exercise period	Exercise price
				HK$
2.9.2013	2.9.2013 – 1.9.2014	20%	2.9.2014 – 1.9.2019	11.84
	2.9.2013 – 1.9.2015	20%	2.9.2015 – 1.9.2019	11.84
	2.9.2013 – 1.9.2016	20%	2.9.2016 – 1.9.2019	11.84
	2.9.2013 – 1.9.2017	20%	2.9.2017 – 1.9.2019	11.84
	2.9.2013 – 1.9.2018	20%	2.9.2018 – 1.9.2019	11.84
5.9.2013	5.9.2013 – 4.9.2014	20%	5.9.2014 – 4.9.2019	11.84
	5.9.2013 – 4.9.2015	20%	5.9.2015 – 4.9.2019	11.84
	5.9.2013 – 4.9.2016	20%	5.9.2016 – 4.9.2019	11.84
	5.9.2013 – 4.9.2017	20%	5.9.2017 – 4.9.2019	11.84
	5.9.2013 – 4.9.2018	20%	5.9.2018 – 4.9.2019	11.84

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

Details of specific categories of options granted under the New Scheme are as follows:

Date of grant	Vesting period	Vesting proportion	Exercise period	Exercise price
				HK$
1.6.2016	1.6.2016 – 31.5.2017	20%	1.6.2017 – 31.5.2022	8.39
	1.6.2016 – 31.5.2018	20%	1.6.2018 – 31.5.2022	8.39
	1.6.2016 – 31.5.2019	20%	1.6.2019 – 31.5.2022	8.39
	1.6.2016 – 31.5.2020	20%	1.6.2020 – 31.5.2022	8.39
	1.6.2016 – 31.5.2021	20%	1.6.2021 – 31.5.2022	8.39
30.8.2017	30.8.2017 – 29.8.2018	100%	30.8.2017 – 29.8.2027	7.21
17.12.2018	17.12.2018 – 16.12.2019	20%	17.12.2019 – 16.12.2024	9.56
	17.12.2018 – 16.12.2020	20%	17.12.2020 – 16.12.2024	9.56
	17.12.2018 – 16.12.2021	20%	17.12.2021 – 16.12.2024	9.56
	17.12.2018 – 16.12.2022	20%	17.12.2022 – 16.12.2024	9.56
	17.12.2018 – 16.12.2023	20%	17.12.2023 – 16.12.2024	9.56

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

The following table discloses movements of the Company's share options held by employees and directors pursuant to the Old Scheme and the New Scheme during the year:

Date of grant	Exercise price HK$	Number of share options: Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
For the year ended 31 December 2020				
Employees				
1.6.2016	8.39	1,000,000	–	1,000,000
30.8.2017	7.21	3,000,000	–	3,000,000
		4,000,000	–	4,000,000
Exercisable at end of the year				–
Weighted average exercise price (HK$)		7.51	–	7.51

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

		Number of share options		
Date of grant	Exercise price HK$	Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
For the year ended 31 December 2019				
Directors				
2.9.2013	11.84	2,300,000	(2,300,000)	–
5.9.2013	11.84	500,000	(500,000)	–
17.12.2018	9.56	2,000,000	(2,000,000)	–
		4,800,000	(4,800,000)	–
Employees				
2.9.2013	11.84	14,650,000	(14,650,000)	–
1.6.2016	8.39	1,000,000	–	1,000,000
30.8.2017	7.21	3,000,000	–	3,000,000
		18,650,000	(14,650,000)	4,000,000
		23,450,000	(19,450,000)	4,000,000
Exercisable at end of the year				–
Weighted average exercise price (HK$)		10.91	11.61	7.51

The Group recognised a total expense of RMB131,000 (2019: RMB1,087,000) for the year ended 31 December 2020 in relation to share options granted by the Company.

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share award scheme

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. Unless terminated earlier by the Board of Directors pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date.

Pursuant to the Scheme, the Board of Directors may, from time to time, at its absolute discretion cause to be paid to the trustee sums of money from the Company's resources for the purchase of shares to be held on trust in accordance with the Scheme and the trust deed. Such sums of money shall be applied towards the purchase of the specific number of shares from the open market according to the written instructions of the Board of Directors. The Board of Directors shall not make any further award which will result in the number of shares awarded by the board of directors under the Scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum aggregate number of the awarded shares which may be awarded to a selected employee under the Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

During the year ended 31 December 2020, 7,032,000 (2019: 35,501,000) shares were purchased by the trustee from the market at an average price of approximately HK$5.70 (equivalent to RMB4.80) (2019: HK$7.67 (equivalent to RMB6.87)) per share, with an aggregate amount of HK$40,081,000 (equivalent to RMB33,738,000) (2019: HK$272,325,000 (equivalent to RMB244,019,000)). No shares were granted to eligible employees pursuant to the Scheme. At the end of the reporting period, there are 72,400,000 (2019: 65,368,000) shares held by the trustee.

28. RETIREMENT BENEFITS PLANS

The employees of the Group's the PRC subsidiaries participate in retirement and medicare insurances in accordance with the PRC laws and related regulations. When an employee joins the Group, he is enrolled with the local retirement plan. Contributions to the retirement insurance, borne by the Group and the employee jointly at the proportions stipulated by the local Municipal Government, are paid to the social insurance institutions monthly. When the employee retires, he receives his retirement funds from the insurance company directly and is also entitled to enjoy medical benefits after retirement provided by the insurance company. Other than the contributions, the Group has no forfeited contribution nor obligation for any related retirement benefits.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, with maximum of HK$1,500 per employee per month, to the MPF Scheme, which contribution is matched by employees.

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income of RMB33,007,000 (2019: RMB55,101,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

29. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**147,191**	142,683

30. RECONCILIATION OF LIABILITY 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 flow will be, classified in the Group's consolidated statement of cash flows as cash flow used in financing activities.

	Bank borrowings RMB'000	Lease liabilities RMB'000	Accrued interest expenses RMB'000	Dividends payable RMB'000	Total RMB'000
At 1 January 2019	–	7,366	–	–	7,366
Financing cash flow	398,392	(4,298)	(1,694)	(249,072)	143,328
Dividends declared	–	–	–	249,072	249,072
New leases entered	–	2,746	–	–	2,746
Interest expenses	–	331	2,327	–	2,658
At 31 December 2019	398,392	6,145	633	–	405,170
Financing cash flow	(29,073)	(4,864)	(16,791)	(241,472)	(292,200)
Dividends declared	–	–	–	241,472	241,472
New leases entered	–	21,335	–	–	21,335
Interest expenses	–	203	16,397	–	16,600
At 31 December 2020	369,319	22,819	239	–	392,377

31. 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 debts, which includes bank borrowings, lease liabilities and amount due to related companies disclosed in notes 22, 23 and 24, respectively, equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of the changes in the Group's business and economic conditions.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 **RMB'000**	2019 RMB'000
Financial assets		
Financial assets at amortised cost	**5,012,288**	4,626,530
Financial liabilities		
Amortised cost	**718,663**	778,566

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings, amounts due to related companies and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, other price 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.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency risk

The Company and certain subsidiaries have foreign currency bank balances, which expose the Group to foreign currency risk.

Included in bank balances of the Group are the following amounts denominated in currencies other than the functional currencies of the relevant group entities to which they relate.

	2020 RMB'000	2019 RMB'000
Functional currency against foreign currency		
RMB against Hong Kong Dollars ("HKD")	586	9,612
HKD against United States Dollars ("USD")	3,363	3,548
HKD against RMB	207,518	95,404

Sensitivity analysis

The Group is mainly exposed to HKD as disclosed above with the functional currencies of those entities in RMB. The Group is also exposed to RMB and USD as disclosed above with the functional currency of that entity in HKD. Under the pegged exchange rate system, the financial impact on exchange difference between HKD and USD will be immaterial, and therefore no sensitivity analysis has been prepared.

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against HKD. 5% (2019: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2019: 5%) change in HKD. A positive number below indicates an increase in profit for the year where RMB strengthens 5% (2019: 5%) against HKD. For a 5% (2019: 5%) weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

	2020 RMB'000	2019 RMB'000
Increase in profit for the year	8,639	3,582

In management's opinion, the sensitivity analysis is unrepresentative of the foreign currency risk as the year end exposure does not reflect the exposure during the year.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Other price risk

The Group is exposed to price risk through its investments from short-term financial products and financial products measured at FVTPL. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. No sensitivity analysis was presented as all investments in short-term financial products and financial products are redeemed at the end of the reporting period.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to bank borrowings (see note 22 for details) and lease liabilities (see note 23 for details). The Group is also exposed to cash flow interest rate risk which relates to bank balances. The Group currently does not have an interest rate hedging policy. The directors of the Company continuously monitor interest rate exposure and will consider enter into interest rate hedging should the need arise. The directors considered the Group's exposure of the bank balances to interest rate risk is not significant and therefore no sensitivity analysis is presented.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, pledged bank deposits and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that settlement of certain trade receivables are backed by bills issued by reputable financial institutions.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group's credit risk management and the related impairment assessment, if applicable, are summarised as below:

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Limits and credit quality of customers are reviewed every year. The Group only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills. In this regard, the management consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2019: 100%) of the total trade receivables as at 31 December 2020.

In addition, the Group performs impairment assessment under ECL model. The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for trade receivables.

Management assessed the expected loss on trade receivables not backed by bank bills individually or collectively by estimation based on internal credit rating, general economic conditions of the industry and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Trade receivables not backed by bank bills with significant outstanding balances or credit-impaired with gross carrying amounts of RMB28,622,000 and RMB1,805,000 (2019: RMB20,192,000 and RMB977,000), respectively, as at 31 December 2020 are assessed individually and the remaining balances with gross carrying amount of RMB291,194,000 (2019: RMB242,886,000) are assessed collectively based on internal credit rating as at 31 December 2020 within lifetime ECL (not credit-impaired). Impairment of RMB5,800,000 (2019: RMB4,029,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

The Group's internal credit rating comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial asset
Low	The customers have a low risk of default and do not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Normal	The customers have a normal risk of default and regularly repay on time	Lifetime ECL – not credit-impaired	12m ECL
High	The customers frequently repay but usually settle after due date	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 – not 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

The table below details the credit risk exposures of the Group's trade receivables not backed by bank bills, which are subject to ECL assessment:

	2020		2019	
Internal credit rating	Average loss rate	Gross carrying amount RMB'000	Average loss rate	Gross carrying amount RMB'000
Low	1.57%	238,782	0.75%	222,020
Normal	3.35%	1,097	1.6%	302
High	8.17%	51,315	3.9%	20,564

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates. During the year ended 31 December 2020, the Group provided RMB5,800,000 (2019: RMB4,029,000) impairment allowance for trade receivables not backed by bank bills under lifetime ECL (not credit-impaired).

As at 31 December 2020, the Group assessed the ECL of trade receivables backed by bank bills with a gross carrying amount of RMB370,347,000 (2019: RMB302,240,000) backed by banks with external credit rating ranged from Aa3 to Ba1 (2019: Aa3 to Baa3) at the loss rates ranged from 0.06% to 0.35% (2019: 0.05% to 0.22%) and the remaining balances with a gross carrying amount of RMB79,636,000 (2019: RMB112,045,000) backed by banks that do not have external crediting rating at the loss rate of 1.00% (2019: 0.86%). During the year ended 31 December 2020, the Group provided RMB1,115,000 (2019: nil) and RMB828,000 (2019: RMB977,000) impairment allowance for trade receivables backed by bank bills under lifetime ECL (not credit-impaired) and lifetime ECL (credit impaired) respectively.

The following table shows the movement in lifetime ECL that has been recognised for trade receivable not backed by bank bills and trade receivables backed by bank bills under simplified approach:

	Lifetime ECL (not-credit–impaired) RMB'000	**Lifetime ECL (credit–impaired)** RMB'000	**Total** RMB'000
As at 1 January 2019	–	–	–
Impairment loss recognised	3,052	977	4,029
As at 31 December 2019	3,052	977	4,029
Changes due to financial instruments recognised as at 1 January 2020:			
– Impairment loss recognised	470	0	470
– Impairment loss reversed	(2,623)	(856)	(3,479)
New financial assets originated or purchased	8,240	1,684	9,924
As at 31 December 2020	9,139	1,805	10,944

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

Changes in the loss allowance for trade receivables are mainly due to:

	2020 (Decrease) increase in lifetime ECL		2019 Increase in lifetime ECL	
	Not credit-impaired RMB'000	**Credit-impaired RMB'000**	Not credit-impaired RMB'000	Credit-impaired RMB'000
Settlement in full of trade receivables with a gross carrying amount of RMB667,126,000 (2019: nil)	**(2,623)**	**(856)**	–	–
New trade receivables with gross carrying amount of RMB760,390,000 (2019: RMB678,340,000)	**8,240**	**1,684**	3,052	977

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 three years past due, whichever occurs earlier.

Other receivables

For other receivables with gross carrying amount of RMB8,618,000 (2019: RMB5,675,000), the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2020 and 2019, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognised.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Pledged bank deposits and bank balances

As at 31 December 2020, included in pledged bank deposits and bank balances are bank balances with gross carrying amount of RMB4,246,958,000 (2019: RMB3,941,607,000) placed in banks with external credit rating ranged from Aa3 to Baa3 (2019: Aa3 to Baa3). The remaining bank balances with gross carrying amount of RMB34,000 (2019: RMB9,429,000) are placed in local banks that do not have external credit rating. The Group has applied 12m ECL approach to assess the impairment loss on bank balances and determines the credit rating of these local banks based on the scale, the operation risk and the supervision risk of the banks.

As at 31 December 2020, the Group assessed the ECL of bank balances with a gross carrying amount of RMB4,246,958,000 (2019: RMB3,941,607,000) placed in banks with external credit rating ranged from Aa3 to Baa3 (2019: Aa3 to Baa3) at the loss rates ranged from 0.06% to 0.28% (2019: 0.05% to 0.22%) and bank balances with a gross carrying amount of RMB34,000 (2019: RMB9,429,000) placed in banks that do not have external crediting rating at the loss rate of 1.00% (2019: 0.86%). For the year ended 31 December 2020, the Group recognised 12m ECL of nil (2019: RMB4,618,000) in respect of the bank balances.

The following table shows the movement in 12m ECL that has been recognised for pledged bank deposits and bank balances:

	12m ECL RMB'000
As at 1 January 2019	–
Impairment loss recognised	4,618
As at 31 December 2019 and 2020	4,618

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

	Weighted average interest rate	Repayable on demand RMB'000	Less than 1 year RMB'000	More than 1 year but less than two years RMB'000	More than two years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2020							
Trade payables	–	–	164,377	–	–	164,377	164,377
Other payables	–	–	170,183	–	–	170,183	170,183
Bank borrowings	2.59%	–	371,477	–	–	371,477	369,319
Amounts due to related companies	–	14,784	–	–	–	14,784	14,784
Lease liabilities	4.98%	–	8,778	8,298	7,552	24,628	22,819
Total		14,784	714,815	8,298	7,552	745,449	741,482

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	Repayable on demand RMB'000	Less than 1 year RMB'000	More than 1 year but less than two years RMB'000	More than two years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2019							
Trade payables	–	–	188,907	–	–	188,907	188,907
Trade payables backed by bank bills	–	–	538	–	–	538	538
Other payables	–	–	174,794	–	–	174,794	174,794
Bank borrowings	3.39%	–	408,937	–	–	408,937	398,392
Amounts due to related companies	–	15,935	–	–	–	15,935	15,935
Lease liabilities	4.94%	–	4,851	991	561	6,403	6,145
Total		15,935	778,027	991	561	795,514	784,711

Fair value measurement of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

33. RELATED PARTY DISCLOSURES

Other than as disclosed elsewhere in the consolidated financial statements, the Group has following transactions and balances with related parties:

Name of related parties	Nature of balances/transactions	**As at/ For the year ended 31 December 2020 RMB'000**	As at/ For the year ended 31 December 2019 RMB'000
Shineway Medical	Interest expenses on lease liabilities	**35**	99
	Service fee	**10,833**	10,220
	Research and development expenses	**–**	4,900
	Lease liabilities	**13,815**	1,365
Shineway Sanhe	Interest expenses on lease liabilities	**28**	77
	Service fee	**2,546**	2,402
	Lease liabilities	**3,326**	1,072
Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	Interest expenses on lease liabilities	**35**	96
	Hotel service fee	**325**	426
	Lease liabilities	**3,792**	1,333
Shijiazhang Municipal Luancheng Country Shineway Training School ("Shineway Training School")	Service fee	**1,827**	2,261

33. RELATED PARTY DISCLOSURES *(Continued)*

Kang Yue Hotel and Shineway Training School are ultimately controlled by the controlling shareholder of the Company.

During the year ended 31 December 2020, the Group entered into several new lease agreements for the use of land, hotel rooms, motor vehicles and machineries with Shineway Medical, Shineway Sanhe and Kang Yue Hotel for 3 years (2019: N/A). On the lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB20,933,000 and RMB20,933,000 respectively. Details are set out in the announcement of the Company dated 17 December 2020.

Compensation of key management personnel

Key management personnel is deemed to be the members of the Board of Directors of the Company which has responsibility for planning, directing and controlling the activities of the Group. Remuneration paid for key management personnel is disclosed in note 11.

34. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2020, the Group entered into new lease agreements for the use of staff quarter, land, hotel rooms, motor vehicles and machineries for 2 to 3 years. On the lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB21,335,000 and RMB21,335,000, respectively.

During the year ended 31 December 2019, the Group entered into new lease agreements for the use of office building and retail shop for 3 years. On the lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB2,746,000 and RMB2,746,000, respectively.

35. EVENTS AFTER THE REPORTING PERIOD

On 30 June 2019, the Company and the Beijing Yingke (Kunming) Law Firm (the "Bankruptcy Administrator") entered into a non legally-binding memorandum of understanding (the "MOU") pursuant to which the Company expressed an interest to purchase the entire equity interest in the Yunnan Liangfang Pharmaceutical Co., Ltd. (the "Yunnan Liangfang"). Pursuant to the MOU, a total of RMB137,410,000 as earnest money was transferred into a bank account under the custody of the Bankruptcy Administrator during the year ended 31 December 2020.

On 20 February 2021, the Company entered into a sales and purchase agreement with an independent third party pursuant to which the Company agreed to purchase entire interest in Yunnan Liangfang at a cash consideration of RMB137,410,000, which has been paid as at 31 December 2020. Up to date of issuance of these consolidated financial statements, the transaction has not yet been completed.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 RMB'000	2019 RMB'000
Non-current asset		
Investments in subsidiaries	**63,599**	63,599
Current assets		
Other receivables	**105**	–
Amounts due from subsidiaries*	**576,298**	532,018
Bank balances and cash	**586**	9,613
	576,989	541,631
Current liabilities		
Other payables	**3,271**	2,854
Amounts due to subsidiaries	**1,557**	80,728
	4,828	83,582
Net current assets	**572,161**	458,049
Net assets	**635,760**	521,648
Capital and reserves		
Share capital	**87,662**	87,662
Reserves (note)	**548,098**	433,986
Total equity	**635,760**	521,648

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

	Reserves RMB'000
At 1 January 2019	471,909
Profit and total comprehensive income for the year	455,168
Purchase of shares under share award scheme	(244,019)
Dividends paid	(249,072)
At 31 December 2019	433,986
Profit and total comprehensive income for the year	392,021
Purchase of shares under share award scheme	(36,437)
Dividends paid	(241,472)
At 31 December 2020	548,098

* The management of the Company considered that the expected loss on amounts due from subsidiaries is insignificant after assessing the financial position of these subsidiaries.

37. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2020 and 2019 are as follows:

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company		Principal activities
			2020	2019	
Yuan Da Investment Limited	Hong Kong 10 November 2009	Ordinary share – HK$1	**100%**	100%	Investment holding
Yuan Da International Limited 遠大國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Shineway Pharmaceutical Group Limited (note b) 神威藥業集團有限公司	PRC 30 December 2003	Registered capital – US$25,000,000	**100%**	100%	Research and development, manufacturing and trading of Chinese pharmaceutical products
Hebei Shineway Pharmaceutical Company Limited (note b) 河北神威藥業有限公司	PRC 30 December 2003	Registered capital – US$12,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
China Shineway Pharmaceutical (Hong Kong) Limited 中國神威藥業(香港)有限公司	Hong Kong 21 April 2004	Ordinary share – HK$1	**100%**	100%	Trading of Chinese pharmaceutical products
Xizang Shineway Pharmaceutical Company Limited (note b) 西藏神威藥業有限公司	PRC 7 November 2006	Registered capital – US$1,250,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Hainan) Company Limited (note b) 神威藥業(海南)有限公司	PRC 21 May 2007	Registered capital – US$3,900,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Chengdu) Company Limited (note c) 神威藥業(成都)有限公司	PRC 25 December 2009	Registered capital – RMB5,000,000	**100%**	100%	Trading of Chinese pharmaceutical products

37. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company		Principal activities
			2020	2019	
Shineway Pharmaceutical (Zhangjiakou) Company Limited (note c) 神威藥業(張家口)有限公司	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	100%	Manufacturing and trading of Chinese products
Shineway Pharmaceutical (Sichuan) Limited) (note c) 神威藥業(四川)有限公司	PRC 15 September 2003	Registered capital – RMB405,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited (note c) 神威藥業(石家莊)中藥飲片有很公司	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	100%	Trading of Chinese pharmaceutical products and agricultural products
Shineway Pharmaceutical (Minle) Modern Agricultural Limited (note c) 神威藥業(民樂)現代農業有很公司	PRC 17 June 2012	Registered capital – RMB2,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Hebei Tongshun Bioenergy Technology Limited (note c) 河北通順生物質能源科技有限公司	PRC 20 September 2013	Registered capital – RMB10,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Australia Shineway Technology Pty Ltd.	Australia 29 August 2012	Registered capital – AUD1,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shineway Pharmaceutical Group (Shandong) Company Limited (note c) 神威藥業集團(山東)有限公司	PRC 27 April 1993	Registered capital – RMB28,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Yunnan Shineway Spirin Pharmaceutical Company Limited (note c) 雲南神威施普瑞藥業有限公司	PRC 20 November 2014	Registered capital – RMB50,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

37. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2020	2019	Principal activities
Beijing Wanter Bio-Pharmactutical Co., Ltd. (note c) 北京萬特爾生物製藥有限公司	PRC 25 August 2002	Registered capital – RMB8,000,000	**100%**	100%	Research and development, manufacturing and trading of pharmaceutical products
Jing Jin Ji Lian Chuang Medicine Research (Beijing) Limited (note c) 京津冀聯創藥物研究(北京)有限公司	PRC 19 January 2017	Registered capital – RMB10,000,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shineway Pharmaceutical (Gansu) Company Limited (notes a and c) 神威藥業(甘肅)有限公司	PRC 9 January 2013	Registered capital – RMB35,000,000	**–**	100%	Trading of Chinese pharmaceutical products
Chuxiong Shineway Spirin Medicine Research Limited (note c) 楚雄神威施普瑞药物研究有限公司	PRC 1 June 2018	Registered capital – RMB5,000,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shi Jia Zhuang Ji Zhong Feed Technology Limited (note c) 石家莊市冀中飼料技術開發有限公司	PRC 4 March 2014	Registered capital – RMB500,000	**100%**	100%	Inactive

Notes:

(a) Deregistered during the year ended 31 December 2020.

(b) Being foreign wholly-owned enterprises.

(c) Being PRC domestic enterprises.

Except for Yuan Da Investment Limited, Yuan Da International Limited and Hong Zhan International Limited, all other subsidiaries are indirectly held by the Company.

The above table lists subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.