CGE 远大健康
CGE HEALTHCARE

2020 Annual Report

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

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

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr. Liu Chengwei
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

WEBSITE

www.chinagrandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

As to Bermuda Law:
Conyers Dill & Pearman

As to Hong Kong Law:
Loeb & Loeb LLP

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

HSBC
Bank of China
Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

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

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is a an international pharmaceutical company of technological innovation. The core products of the Group cover the anti-tumor, cardiovascular emergency pharmaceutical products and advanced cerebro-cardiovascular intervention advanced medical devices, anti-virus and anti-infection, respiratory and ENT, bio-health products and specialized pharmaceutical ingredients. The Group has mainly focused on four business scopes, namely "innovative drugs with high entry barriers", "branded drugs", "integration of raw materials", and "nutrition products". There are three major segments of global innovation and technology leadership, namely precision interventional diagnosis and treatment, Radionuclide-drug conjugate ("RDC") and immunotherapy, to be carried out with a forward-looking view by the Group. The Group has taken part in four technology R&D platforms and five major R&D centers around the world.

In 2020, due to the impact of COVID-19 epidemic, the Group recorded a revenue of approximately HK$6,350 million, representing a slightly decrease of approximately 3.6% as compared to the corresponding period in 2019. Through the optimization of its profit structure, expansion of the out-of-hospital market and increase in fair value of strategic equity investment, the Group's profit for the year attributable to owners of the Company during the year reached approximately HK$1,790 million, with an increment of 55.8% as compared with the same period of last year. If the gain from fair value change of strategic investment in Telix is excluded, the Group's profit attributable to the owners of the Company amounted to approximately HK$1,520 million, increased by approximately 32.5% as compared to the same period of last year.

Since the Group has a strong industrial foundation and a complete industrial chain with outstanding comprehensive advantages in pharmaceutical raw materials and preparations integration, it is listed as an emergency medicines manufacturer for national ready reserve, a national essential medicines base and a national centralized production base for minority-variety medicines, etc., laying a solid foundation for the sustained and stable growth of the Group's result. Moreover, the Group has more than 90 products included in the Chinese National List of Essential Drugs (2018 Version), more than 200 products included in the National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2019 Version). A total of seven products have been approved to pass the consistency evaluation, including sodium bicarbonate tablets, metronidazole tablets, trimetazidine tablets, glipizide tablets, finasteride tablets, captopril tablets and milrinone injection, among which, five products (namely sodium bicarbonate tablets, metronidazole tablets, trimetazidine tablets, glipizide tablets and finasteride tablets) have won the bid for the national centralized procurement of medicines.

The Group has obvious advantages in traditional fields such as the respiratory and ENT, and cardiovascular emergency preparations. While a number of barrier products and exclusive products with leading market share make a stable contribution, the Group has also reserved three innovative products in the late clinical stage, including the treatment of "dry eye disease", "pterygium" and "allergic rhinitis", which are expected to be gradually introduced in the PRC in the coming few years. The Group will continue to adopt the R&D concept of combining innovator and generic to create a product cluster, and keep consolidating its leadership in this segment in the future. The Group has established a long-term and stable cooperative relationship with many overseas high-quality customers in the field of bio-health products, which constitutes an important support for the Group's sustained and stable business performance.

Meanwhile, by fully capitalising "accurate and stable business development capabilities at home and abroad, the introduction and digestion of international leading technologies, excellent marketing and sales capabilities", the Group is aiming at the frontier areas of technological innovation. With the strategy of "building a wall, deepening exploration, storing reserves" and the vision of internationalization and technological innovation, the Group continues to expand and reach a new business growth point, deeply expanding three core therapeutic areas, i.e. "cerebro-cardiovascular precision interventional diagnosis and treatment", "anti-tumor" and "anti-virus and anti-infection".

Corporate Profile

The field of "cerebro-cardiovascular precision interventional diagnosis" concerns on five directions, i.e. vascular intervention, neurointervention, structural cardiac disease, electrophysiology and heart failure. For the purpose of a comprehensive deployment, a product cluster of technologically innovative high-end medical device is in place. Currently, there are six products covering three major directions, two of them have been approved for launch in the PRC, and the remaining four are expected to be approved for launch in the PRC before the end of 2025. Among which, two products of vascular intervention, namely RESTORE DEB, which is the only innovative coronary intervention drug coating balloon product in the market with two indications of de novo coronary artery lesions and in-stent restenosis, and APERTO OTW, which is the first renal dialysis drug coating balloon product of hemodialysis patient, have been approved for launch in the PRC. The product LEGFLOW OTW for peripheral vascular diseases has also entered into clinical research stage and is expected to be approved for launch in 2024. The NOVASIGHT Hybrid, a coronary diagnosis product, can simultaneously show the ultrasound and optical image. It was enrolled in the special review approval process of innovative medical device in 2019, and is expected to obtain the approval for launch in the PRC in 2023. For structural cardiac disease, there is a diagnosis product FORESIGHT ICE, which is a 3D intracardiac echocardiography product and was approved for commercialization in United States and Canada. Currently it is actively prepared for the clinical registration works in China. The valve products will be further enhanced in the future. For neurointervention, the Group is independently developing a new stent retriever, which is expected to be approved for launch in 2024. Along with the accelerated growth in terms of electrophysiology and heart failure, it is expected that the deployment of such five directions will be completed in 2021. At the same time, regarding "introduction and landing" and "synchronously independent and localized R&D" as its development direction, the Group will realize the construction of a dual system of local + global R&D and production, as well as accelerate product launches and improve its own R&D capability. With the belief of "persistence is the key to success", it is the Group's target to build this segment into a leading "cerebro-cardiovascular precision interventional diagnosis and treatment platform" in the PRC and even the world.

In the field of anti-tumor, "radionuclide" and "immunization" are the key layout world-wide. A milestone breakthrough development has been achieved in 2020, in which for radionuclide it has established an all-round layout covering R&D, production, sales and supervision qualification and built up the full industry chain in 3 years. In terms of product pipelines, there are 12 global innovative products, of which 10 products are in clinical trials across different locations in the globe, covering 9 major solid tumors (including hepatocellular carcinoma, colorectal cancer, clear cell renal cell carcinoma, prostate cancer, glioblastoma, metastatic melanoma, triple negative breast cancer, squamous cell carcinoma and HPV-positive head and neck cancer). The variety and quantity of the Group's product pipeline are at the leading level in this industry. In terms of blockbuster products, SIR-Spheres® Y-90 resin microspheres is the radionuclide-drug conjugates, being the Group's global innovative blockbuster products, and its new drug application (the "NDA") has been approved by the National Medical Products Administration of the PRC ("NMPA"), which is expected to obtain the approval for launch in the PRC in the end of 2021 and to provide a new treatment resolution to liver cancer patients in China. TAVO™, the core product of OncoSec Medical Incorporated ("OncoSec", an associate of the Group), is performing a registration-enabled phase IIb clinical trial for the treatment of anti-PD-1 checkpoint resistant metastatic melanoma with the pure anti-PD-1 drug KEYTRUDA® (Generic name: pembrolizumab). The interim data of the experiment demonstrated the overall response rate ("ORR") was 30%, which was much higher than the primary efficacy endpoint for the study determined by blinded independent review (a 20% ORR). It is expected that OncoSec can apply for accelerated approval with the U.S. FDA based on the final ORR data from this phase IIb clinical trial. In terms of R&D, the Group relied on Telix Pharmaceuticals Limited ("Telix"), Sirtex Medical Pty Ltd. ("Sirtex") and OncoSec to establish their international first-class R&D platforms for radionuclide-drug conjugate (RDC), tumor intervention and DNA immunization, greatly enhancing the Group's R&D strength of anti-tumor radionuclide drug in the field of tumor immunity. The Group will continue to increase investment in and development of global innovative products in the field of radiopharmaceuticals and tumor immunity in response to unmet clinical needs and enrich product pipeline and improve supply chain, dedicating itself into building a world-leading radiopharmaceutical diagnosis and treatment platform and tumor immunotherapy platform.

The global first-in-class drug against unmet clinical needs is the focus in the field of anti-virus and anti-infection. In terms of product pipelines, there are three global innovative drugs, two of which are global innovative drugs for the treatment of sepsis, STC3141 and APAD, and one of which is a global innovative drug for the treatment of parainfluenza. The clinical progress of STC3141, a world-wide innovative drug, was rapid and Phase Ib clinical research for the treatment of acute respiratory distress syndrome (the "ARDS") was approved to commence in the PRC in March 2021. The Phase II clinical research, for the treatment of ARDS caused by COVID-19 infection and Phase Ib clinical research for the treatment of sepsis were approved to commence in Australia in May 2020. In terms of R&D, the Group has set up an anti-virus and anti-infection R&D platform in Australia, and has established strategic partnerships with the Australian National University and Griffith University in Australia (the "Griffith University").

In the field of mRNA therapy, the COVID-19 epidemic has made mRNA therapy unprecedentedly famous in decades, leading to a potential major and far-reaching impact on the vaccine industry and even the entire biotechnology industry. The Group has established a strategic cooperation with Belgium based eTheRNA Immunotherapies NV ("eTheRNA"), pursuant to which, a company with independent R&D capability was quickly established in China within half a year, accompanying with the ability to compete with international leading mRNA companies.

The sea admits hundreds of rivers for its capacity to hold. The Group conducts global R&D with an active and open mind. The global R&D centre has begun to take shape and the global R&D layout has achieved initial results. The Group has invested in four technology R&D platforms and five R&D centers around the world. The technology R&D platforms consist of the RDC technology platform, DNA R&D technology platform, mRNA R&D technology platform and Glycomics R&D technology platform. The R&D centers include the International R&D Center in Optics Valley in Wuhan (under preparation of construction) as well as four overseas R&D centers (namely San Diego R&D Center — Immunotherapy (DNA Technology) Anti-tumor in the United States, Boston R&D Center — Precision Interventional Anti-tumor in the United States, Belgium R&D center — mRNA, and Australia R&D Center — Anti-virus and Anti-infection). The Group has over 30 prestige scientists worldwide. The Group and its associates have 526 R&D personnel in total (including overseas R&D teams such as Sirtex and OncoSec), representing a significant increase more than 70% as compared to the corresponding period of 2019, among which, 258 persons hold master's or doctorate degrees, accounting for nearly 50%, with over 300 personnel in the direct R&D team. All professional leaders and core team members of each segment have academic background in clinical medicine or pharmacy, while some of whom also have overseas education or working experience. In respect of the construction of R&D systems, during the current period, the Group has implemented one quality management system, two scientific committees and professional technical committees and three functional systems, including patent system, pharmacovigilance system and clinical operation system. The total investments in R&D and projects during 2020 was over RMB1.5 billion.

The Group is accelerating the pace of globalization. Since 2015, the Group has not only held a high proportion of shares in two important associates, Sirtex and OncoSec (approximately 49% and 43%, respectively), but also established equity and product strategic cooperation with Germany based Cardionovum GmbH ("Cardionovum"), Canada based Conavi Medical Inc, Australia based Telix, India based Glenmark Specialty S.A. ("Glenmark"), Belgium based eTheRNA, etc. Its presence has reached North America, Europe, Asia and other regions around the world. Together with its major associates, the Group has established production bases in the United States, Canada, Germany and Singapore, and has a world-wide sales network in more than 60 countries and regions, and has taken part in R&D centers located in United States, Australia and Belgium.

"Maintain stable growth, strive in innovation and decide the layout", upon the principles of meeting the needs of patients, adapting to market development and insisting on technological innovation as well as the development concept of "comprehensive strengths, innovation barriers and global expansion" and the strategy of "dual-wheel driving development of independent R&D, global expansion and dual-cycle operation", the Group has formed a new pattern of domestic and international cycles that synergize with each other, and is committed to becoming a international pharmaceutical company of technological innovation, delivering on its promises for doctors and patients, and making significant contribution to the society.

Corporate Profile

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

PHARMACEUTICAL PREPARATION

Respiratory and ENT medicines:
Ophthalmic: Rui Zhu, He Xue Ming Mu series, Xin Bai Nei Ting, Nuo Ming and Jie Qi
Respiratory and ENT: Qie Nuo and Jinsang series

Cerebro-cardiovascular emergency medicines:
Li Shu An series, Rui An Ji series, Cedilanid, Xin Wei Ning and Nuo Fu Kang

MEDICAL DEVICES

Vascular interventional medical devices:
Paclitaxel Releasing Coronary Balloon Dilatation Catheter (RESTORE DEB) and Paclitaxel Releasing Hemodialysis Shunt Balloon Dilatation Catheter (APERTO OTW)

BIO-TECHNOLOGY PRODUCTS AND HEALTHCARE PRODUCTS

Taurine, amino acid, steroids, bio-pesticides and agricultural antibiotics

SPECIALIZED PHARMACEUTICAL INGREDIENTS AND OTHER PRODUCTS

Metronidazole, chloramphenicol, dimethyl sulfate, nitromethane and epinephrine

RESEARCH AND DEVELOPMENT

107 Projects under research

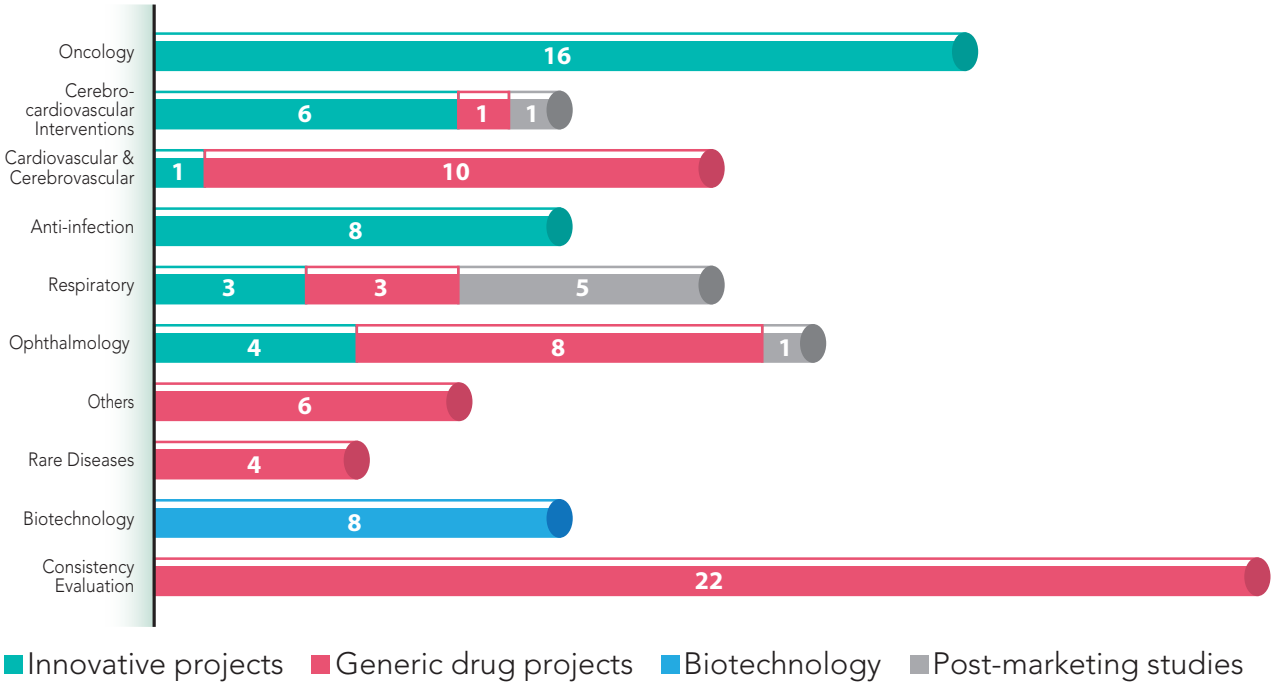
500+ R&D personnel

Approximately RMB **15** million investment in R&D and new projects

1 International R&D Centre in Optics Valley in Wuhan (under construction)

4 Major overseas R&D centers
San Diego R&D Center in the United States
Boston R&D Center in the United State
Belgium R&D Center
Australia R&D Center

R&D PROJECTS PIPELINE



107 projects under development (data updated to January 2021)

INNOVATION PIPELINE SCHEDULE

Table 1.1

Cerebro-cardiovascular high-end medical devices

Sector	Product	Indications	Category	R&D progress	Launching schedule (estimated)	
				R&D / Model inspection / Under clinical trial / Registration for launching / Launch	Overseas	PRC
Precise Intervention	RESTORE®	De novo coronary artery lesions and in-stent restenosis	Treatment	Launch	2011	2019
	APERTO®	Arteriovenous fistula treatment of hemodialysis	Treatment	Launch	2013	2020
	LEGFLOW®	Peripheral vascular disease	Treatment	Launch	2011	2024
	NOVASIGHT	Coronary artery imaging and intracavity interventional surgery	Device for diagnosis	Launch	2018	2022
	FORESIGHT	Preoperative diagnosis and intraoperative guidance for radiofrequency ablation or structural heart disease	Device for diagnosis	Launch	2017	2024
	New stent retriever	Ischemic stroke	Treatment	Launch		2025

Oncology products

Category	Product under research	Indications	Preclinical / Under phase I clinical trials / Under phase II clinical trials / Under phase III clinical trials / NDA / Launch	Launching schedule (estimated)
Precise Intervention	SIR-Spheres Y-90 resin microsphere	Malignant liver tumor	Launch	2021
			NDA	2022
	Lava (EVOH Ethylene Vinyl Alcohol Copolymer)	Cerebral aneurysm	Preclinical	
	AuroLase* (Photonic Thermal Ablation of Osteosarcoma)	Prostate cancer	Preclinical	
Radionuclide-drug Conjugate (RDC)	TLX591 (^{177}Lu-rosapatumab)	Prostate cancer	Under phase II clinical trials	2028
	TLX591-CDx (^{68}Ga-PSMA-11)	Prostate cancer — diagnosis	Launch	2021
			Preclinical	2026
	TLX599-CDx (^{99m}Tc-EDDA/HYNIC-iPSMA)	Prostate cancer — diagnosis	Under phase I clinical trials	2027
	TLX250 (^{177}Lu-girentuximab)	Clear cell renal cell carcinoma	Under phase II clinical trials	2028
	TLX250-CDx (^{89}Zr-girentuximab)	Clear cell renal cell carcinoma — diagnosis	Breakthrough Therapy Designation granted by the FDA	2026
	TLX101 (^{131}I-IPA)	Glioblastoma	Orphan Drug Designation granted by the FDA	2026
Immunotherapy	REV-001 (Vesicular Stomatitis Virus)	Colorectal cancer	Preclinical	2027
	TAVO (Interleukin-12 plasmind DNA drug)	Metastatic melanoma	Orphan Drug Designation granted by the FDA	2023-2025
		Triple-negative breast cancer	Orphan Drug Designation granted by the FDA	
		Squamous cell carcinoma	Orphan Drug Designation granted by the FDA	
	mRNA vaccine (TriMix Technology and Lipid Nanoparticles Technology)	Metastatic melanoma HPV-positive head and neck cancer	Orphan Drug Designation granted by the FDA	

* AuroLase: The Group owns the right of first negotiation for that product

Sector	Product	Indications	R&D progress	Launching schedule (estimated)
			Preclinical / Under phase I clinical trial / Under phase II clinical trial / Under phase III clinical trial / NDA / Launch	
Antiviral and Antiinfection	STC3141	Sepsis COVID-19 ARDS ARDS		2026
	APAD	Sepsis		2028
	New Parainfluenza Drug	Parainfluenza		2030
Respiratory, ophthalmic and ENT	Glenmark Ryaltris	Allergic rhinitis		2025
	BRM421	Dry eye disease		2025
	CBT-001	Pterygium		2024

Corporate Profile

As of the date of this report, the Group's major product development and corporate development are as follows:

December 2020

The first patient was dosed in a phase Ib clinical study of STC3141, a global innovative drug for the treatment of sepsis, in Australia.

Sirtex purchase approximately 12.5% equity interests of BlackSwan at a consideration of US$5 million and has the right to appoint an observer member to its board of directors.

November 2020

The Group further entered into strategic cooperative agreement and product licensing agreement with eTheRNA to set up a joint venture company in Mainland China, and obtained the exclusive licenses from eTheRNA for the world's innovative HPV-positive head and neck cancer products in Greater China Region, as well as the right of first negotiation for future products.

The Group and Nuclear and Radiation Safety Center of the Ministry of Ecology and Environment of the PRC entered into a cooperative framework agreement to carry out technological cooperation in nuclear and radiation safety and related fields.

The NDA for TLX591-CDx, an imaging product for prostate cancer, submitted by Telix, the Group's partner in the field of RDC, was accepted for filling by FDA.

The NDA for the Group's SIR-Spheres® Y-90 resin microspheres was accepted for filling by NMPA of the PRC.

The interim data from its registration-enabled phase IIb clinical trial evaluating OncoSec's core product TAVO™ in combination with KEYTRUDA® in anti-PD-1 checkpoint resistant metastatic melanoma patients announced on OncoSec, the Group's research and development platform in tumor immunotherapy and DNA technology, achieved much higher than primary efficacy endpoint.

The FDA of the United States approved the IND application for a Phase I Investigator-Initiated trial for OncoSec's CORVax12, a DNA vaccine to treat COVID-19 that OncoSec is developing.

The Group invested US$25 million to subscribe approximately 7.6% equity interests of Telix and obtained the exclusive rights in the Greater China Region for six First in Class innovative radionuclide-drug conjugates developed by Telix.

September 2020

Sirtex made US$1.5 million equity investment for approximately 6% of first round series B-1 preferred shares in Nanospectra and has the right to appoint a member in its board of directors.

August 2020

The Group's SIR-Spheres® Y-90 resin microspheres was approved by NMPA to file the new drug application for the treatment of colorectal liver metastases based on clinical trial data obtained overseas.

4 products of the Group approved to pass consistency evaluation, namely, sodium bicarbonate tablets, trimetazidine hydrochloride tablets, finasteride tablets and captopril tablets, won the bid in the third batch of national centralized medicines procurement.

The Group successfully placed and issued 172,000,000 placing shares to no less than six placees at the placing price of HK$5.90 per placing share.

July 2020

The Group committed to investing RMB100 million in Nanjing Fund of which the proceeds will be used for the investment in medical, healthcare, pharmaceutical and medical device projects.

The Group, together with Nanjing Fund and Shanghai Hongsheng, subscribed for and acquired Nanjing Kainite in phases. The company has the five medical devices in the area of neurointervention, including the third-generation stent retriever for the treatment of ischemic stroke.

The Group invested RMB30 million to acquire approximately 9.7% of the equity interest in Revolmmune, and obtained the global exclusive rights of VSV-GPM, a global innovative product for the treatment of colorectal cancer, and the priority cooperation right for other products.

June 2020

The Group invested in CNCB Fund with a capital commitment of US$50 million, and the fund is intended to raise a total of US$200 million, which will be mainly used to invest in the world's leading pharmaceutical companies and medical device manufacturers.

May 2020

The Group invested EUR9 million to acquire approximately 12% of the preferred series B shares of eTheRNA, with agreed certain terms subject to further negotiation, including introducing mRNA production technology of eTheRNA and the exclusive development and commercialization rights for its projects under research in the Greater China Region.

The Group's genetic immunotherapy product TAVO™ in combination with anti-PD-1 checkpoint inhibitor KEYTRUDA® (pembrolizumab) for the treatment of advanced metastatic melanoma demonstrated 41% overall response and good safety.

STC3141, a world-wide innovative drug of the Group for the treatment of sepsis was approved to commence phase II clinical research in Australia for the treatment of ARDS of COVID-19 and also the phase Ib clinical research for treatment of sepsis.

Corporate Profile

April 2020

The APERTO OTW, the first drug-coating balloon in China for the indication of shunt stenosis in arteriovenous fistula of hemodialysis patients, which is jointly developed by the Group and its associate Cardionovum, was granted the medical device registration certificate by the NMPA of the PRC.

The Group entered into a product licensing agreement with Cloudbreak to acquire the exclusive production (including technology transfer) and commercialization rights of CBT-001, a global innovative product for pterygium treatment, in the Greater China Region.

March 2020

The Group entered into a technology transfer agreement with AnTi New Bio-Tech, to obtain the technological and related intellectual property for the new sepsis drug APAD, and to be able to develop, manufacture and sell related products.

February 2020

The Group completed the purchase of the shares of OncoSec, and holds approximately 52.8% of the outstanding shares of common stock of OncoSec together with Sirtex Medical US Holdings, Inc., an indirectly owned associate of the Company. Meanwhile, the exclusive commercialization rights of the licensed products in China and 38 other Asian countries and regions were effective.

THE COMPANY'S STOCK PRICE TREND CHART IN 2020

Revenue in 2020: HK$6.35 billion

Net profit attributable to the owners of the Company in 2020: HK$1.79 billion

The total cash dividend paid for 2020 was approximately HK$324 million

Corporate Profile

SALES NETWORK

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

Second business division
Hospital promotion of cerebro-cardiovascular and emergency products, covering the central city hospital

Third business division
Commercialization and channel sales of ophthalmic products

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

Sixth business division
Ophthalmic products and hospital promotion, covering secondary potential urban hospitals

Seventh business division
E-commerce business

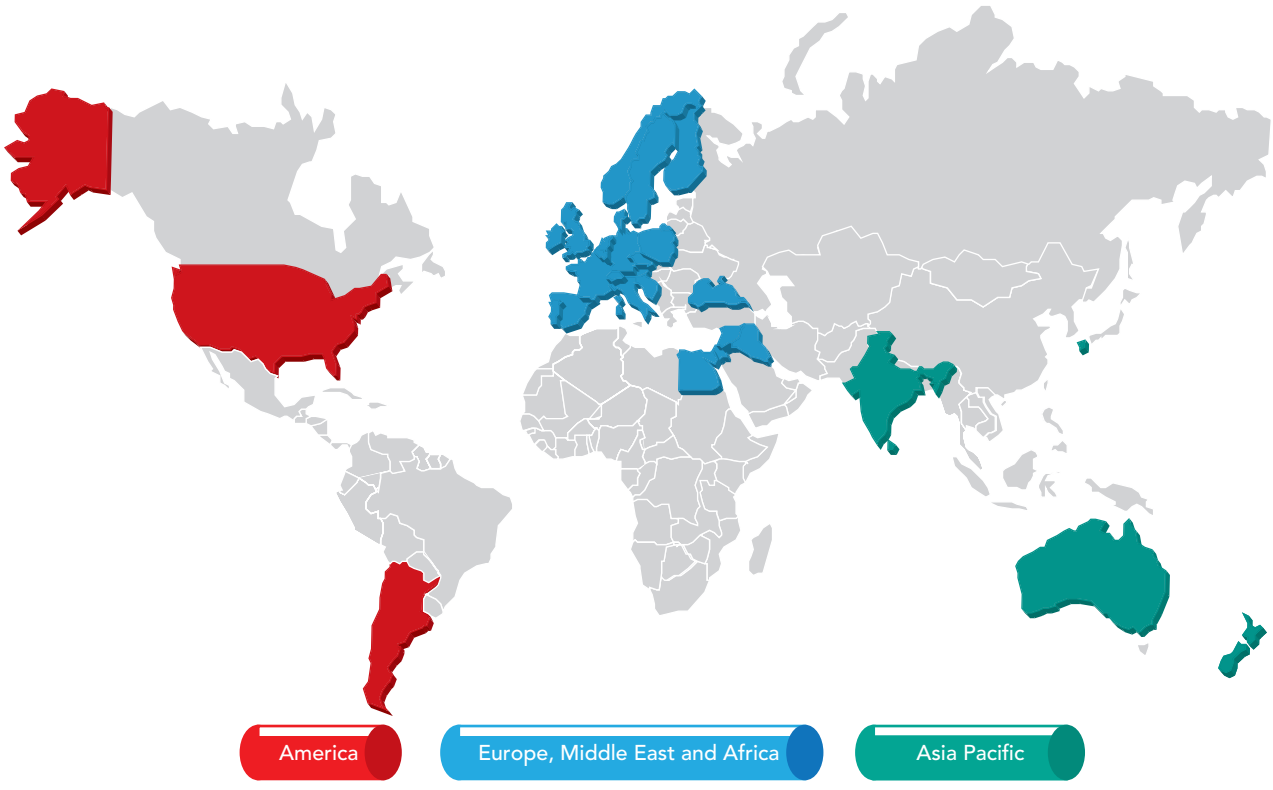
Eighth business division
Drug sales agent

Qie Nuo division
Sales of Qie Nuo (ENT)

Traditional Chinese medicine division
Sales of traditional Chinese medicine products

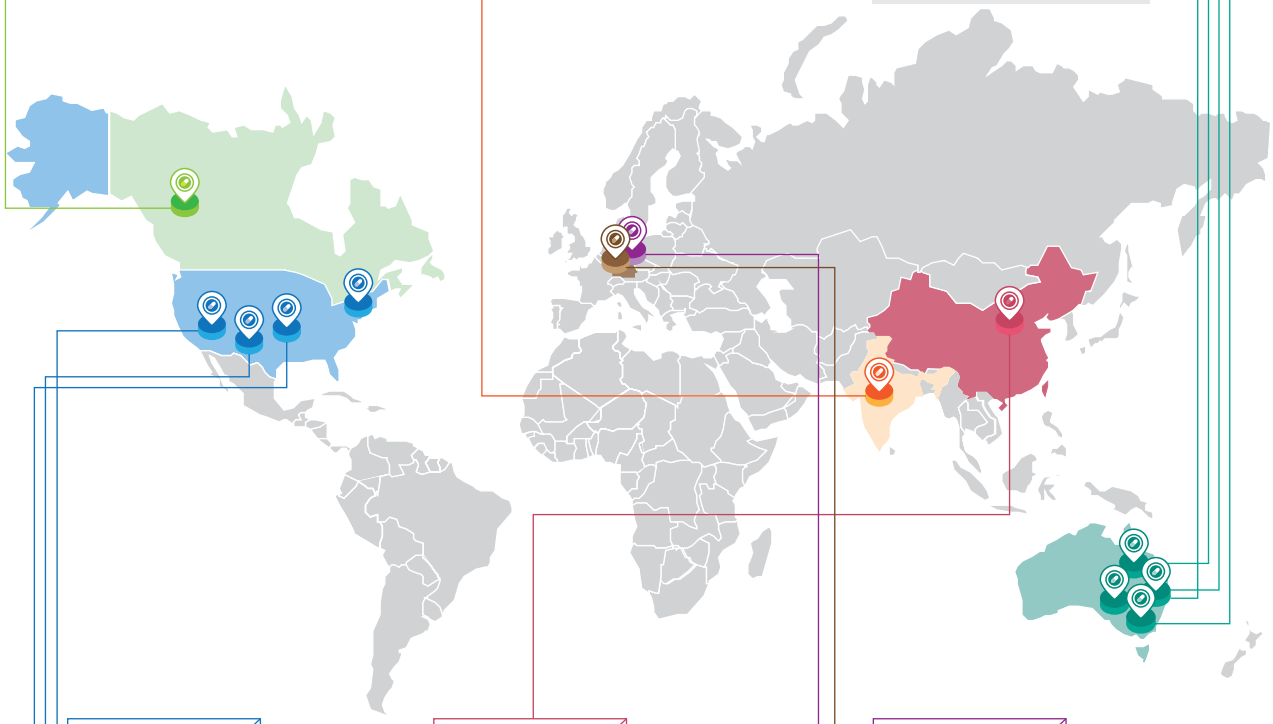
The ministry of commerce
Commercial pipeline construction, bidding
Coverage: all provinces

GLOBAL SALES NETWORK OF SIRTEX



Corporate Profile

THE GLOBAL LAYOUT OF THE GROUP



Canada

Conavi Medical Inc.
NOVASIGHT Hybrid™
FORESIGHT ICE

India

Glenmark Specialty S.A.
Ryaltris Nasal Spray

Australia

Sirtex Medical Co., Ltd.
SIR-Spheres® Y-90 resin microsphere

Griffith University
World-wide innovative Parainfluenza drug

The Australian National University
New drug for sepsis, HIP project

Telix Pharmaceuticals Limited
6 RDC new drugs

America

Sirtex Medical Pty Ltd.
SIR-Spheres® Y-90 resin microsphere

OncoSec Medical Inc.
TAVO™

Nanospectra
AuroLase®

BlackSwan
Lava™

PRC

Cloudbreak Bio-Pharmaceutical Science and Technology (Guangzhou) Co., Ltd.
CBT-001, a new drug for pterygium

Chongqing AnTi New Bio-technology Limited
APAD, a new drug for sepsis

BRIM Biotechnology, Inc.
BRM421, a new product for dry eye diseases

Shanghai Revolmmune Therapeutics Biotechnology Limited
Vesicuar Stomatitis Oncolytic Virus

Nanjing Kainite Medical Technology Company Limited
Neurological stent retriever

Germany

Cardionovum GmbH
RESTORE®
APERTO®
LEGFLOW®

Belgium

eTheRNA Immunotherapies NV
mRNA platform and head and neck cancer

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

Company name and percentage of equity interest	Positioning and functions
Grand Pharma (China) Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Pharmaceutical Co., Ltd. 99.18%	Manufacture of pharmaceutical raw materials
Wuhan Grand Hoyo Co., Ltd. 87.69%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Life Science & Technology Co., Ltd. 97.43%	Research and development, manufacture and sales of taurine products
Hubei Grand Biotechnology Co., Ltd. 49.69%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Fuchi Pharmaceutical & Chemicals Co., Ltd. 89.60%	Research and development, manufacture and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Pharmaceutical Company Limited 99.84%	Manufacture and sales of ophthalmic pharmaceutical products
Zhejiang Xianju Xianle Pharmaceutical Co., Ltd. 67.00%	Research and development, manufacture and sales of steroid hormones active pharmaceutical ingredients and related intermediates
Wuhan Kernel Bio-tech Co., Ltd. 91.56%	Research and development, manufacture and sales of bio-technology products series
Hubei Wellness Pharmaceutical Co., Ltd. 99.84%	Manufacture and sales of pharmaceutical products
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. 59.90%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Grandpharma Group Sales Co., Ltd. 99.84%	Sales of pharmaceutical products
Beijing Huajin Pharmaceutical Co., Ltd. 71.88%	Research and development, manufacture and sales of pharmaceutical products
Huangshi Fuchi Water Affairs Company Limited 99.84%	Treatment of sewage
Beijing Grand Jiuhe Pharmaceutical Co., Ltd. 96.84%	Research and development, manufacture and sales of pharmaceutical products
Tianjin Jingming New Technology Development Co., Ltd. 73.18%	Research and development, manufacture and sales of pharmaceutical products
Zhu Hai Cardionovum Medical Device Co. Ltd. 77.89%	Sales of medical devices
Xi'an Beilin Pharmaceutical Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Technology Co., Ltd. 99.84%	Research and development
Grand Medical Pty Limited 100%	Research and development

The principal associates of the Group are as follows:

Company name and percentage of equity interest	Positioning and functions
Sirtex Medical Pty Ltd 49.00%	Research and development, manufacture and sales of pharmaceutical products
OncoSec Medical Incorporated 43.38%	Research and development, manufacture and sales of pharmaceutical products
Shanghai Xudong Haipu Pharmaceutical Co., Ltd. 55.00%	Research and development, manufacture and sales of pharmaceutical products
Cardionovum GmbH 33.33%	Research and development, manufacture and sales of devices

DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"AnTi New Bio-Tech"	Chongqing AnTi New Bio-technology Limited (including its subsidiary)
"APERTO OTW"	Paclitaxel Releasing Hemodialysis Shunt Balloon Dilatation Catheter
"ARDS"	Acute Respiratory Distress Syndrome
"BlackSwan"	BlackSwan Vascular, Inc.
"BRIM"	BRIM Biotechnology, Inc.
"Cardionovum"	Cardionovum GmbH, an associate of the Group
"CDE"	Center for Drug Evaluation, NMPA
"Cloudbreak"	Collectively, Cloudbreak Guangzhou and Cloudbreak Therapeutics LLC
"Cloudbreak Cayman"	Cloudbreak Pharmaceutical Inc.
"Cloudbreak Guangzhou"	Cloudbreak Bio-Pharmaceutical Science and Technology (Guangzhou) Co., Ltd.
"CNCB Fund"	CNCB Grand Healthcare Investment Fund LP
"Conavi"	Conavi Medical Inc.
"COVID-19"	Coronavirus Disease in 2019
"COVID-19 ARDS"	Acute respiratory distress syndrome suffered by COVID-19 patients
"eTheRNA"	eTheRNA Immunotherapies NV
"FDA"	United States Food and Drug Administration
"Glenmark"	Glenmark Specialty S.A
"Grand Pharma (China)"	Grand Pharma (China) Co., Ltd.
"Greater China Region"	Mainland China, Hong Kong, Macau and Taiwan region

"IND"	Investigational New Drug
"LEGFLOW OTW"	Paclitaxel Releasing Peripheral Balloon Dilatation Catheter
"mRNA"	messenger RNA
"Nanjing Fund"	Nanjing Chuangyi Dongyin Equity Investment Partnership (Limited Partnership) (南京創熠東銀股權投資合夥企業(有限合夥))
"Nanjing Kainite"	Nanjing Kainite Medical Technology Company Limited (南京凱尼特醫療科技有限公司)
"Nanospectra"	Nanospectra Biosciences, Inc.
"NDA"	New Drug Application
"NMPA"	National Medical Products Administration of the PRC
"OncoSec"	OncoSec Medical Incorporated, an associate of the Group
"RESTORE DEB"	Paclitaxel Releasing Coronary Balloon Dilatation Catheter
"Revolmmune"	Shanghai Revolmmune Therapeutics Bio-technology Limited
"Shanghai Hongsheng"	Shanghai Hongsheng Enterprise Management Partnership (Limited Partnership) (上海洪昇企業管理合夥企業(有限合夥))
"Sirtex"	Sirtex Medical Pty Ltd (including its subsidiaries), an associate of the Group
"TAVO ™"	Tavokinogene Telseplasmid
"Telix"	Telix Pharmaceuticals Limited (ASX:TLX)
"Tianjin Jingming"	Tianjin Jingming New Technology Development Co., Ltd.
"VSV-GPM"	Vesicular stomatitis oncolytic virus

Financial Summary

RESULTS

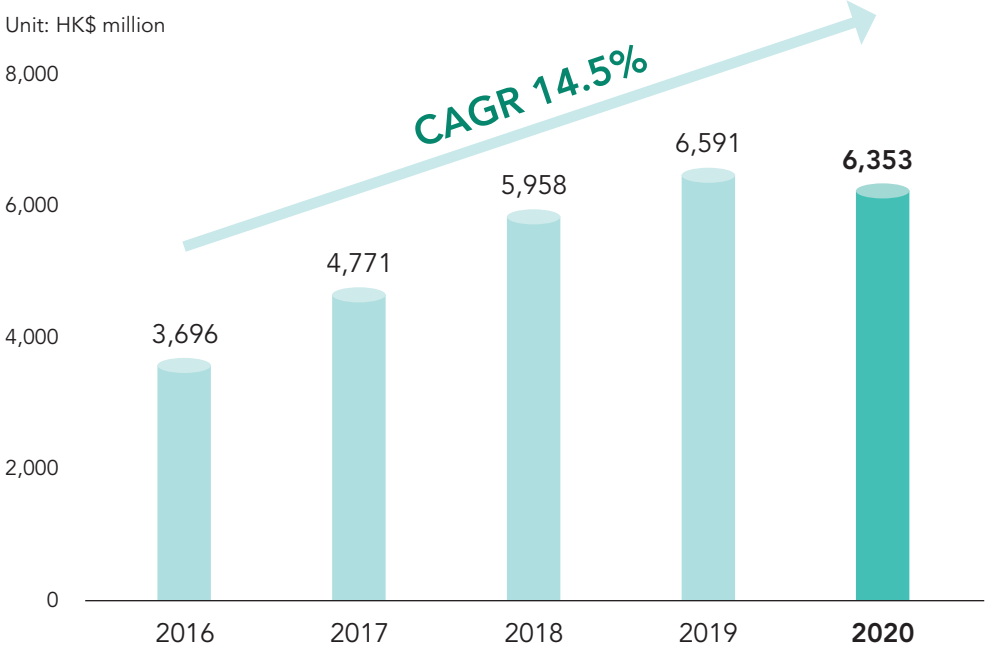
	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**6,352,919**	6,590,635	5,958,355	4,770,850	3,696,164
Profit before tax	**2,073,583**	1,355,973	883,899	558,939	313,964
Income tax	**(292,374)**	(230,485)	(147,460)	(73,181)	(44,602)
Profit for the year	**1,781,209**	1,125,488	736,439	485,758	269,362

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**16,984,345**	13,813,307	13,496,659	8,062,791	7,141,947
Total liabilities	**(5,640,136)**	(5,302,300)	(6,062,032)	(5,603,190)	(5,165,860)
Net assets	**11,344,209**	8,511,007	7,434,627	2,459,601	1,976,087

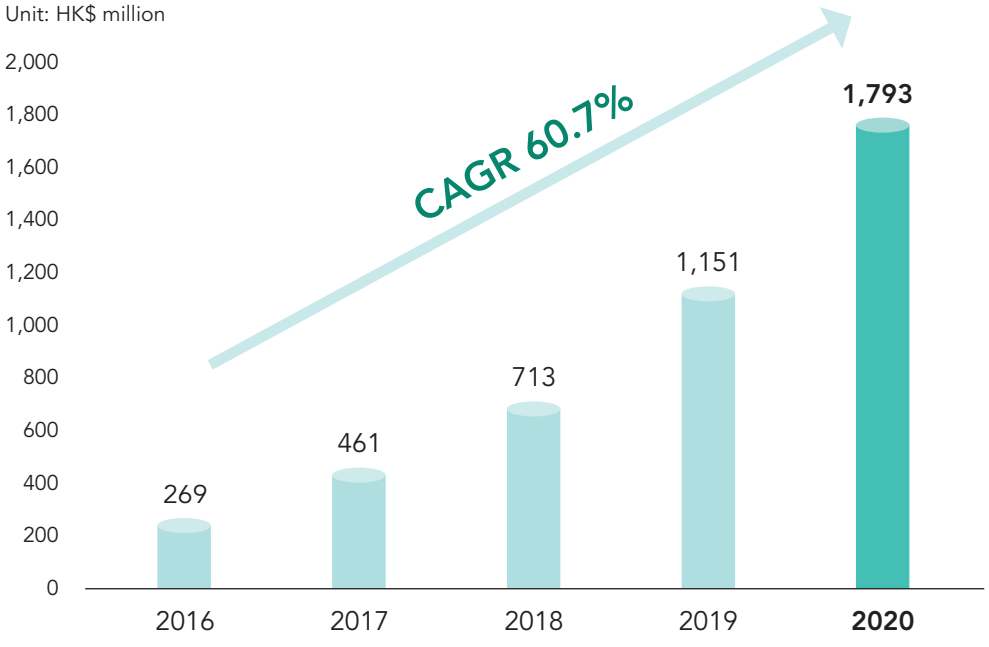
Revenue growth

Table 1.5



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

Table 1.6



Financial Summary

CORE PRODUCTS

Preparation products with sales of above RMB100 million:

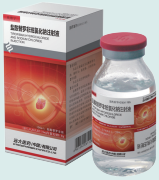
Above RMB500 million

Qie Nuo

Li Shu An

From RMB100 million to RMB500 million

He Xue Ming Mu



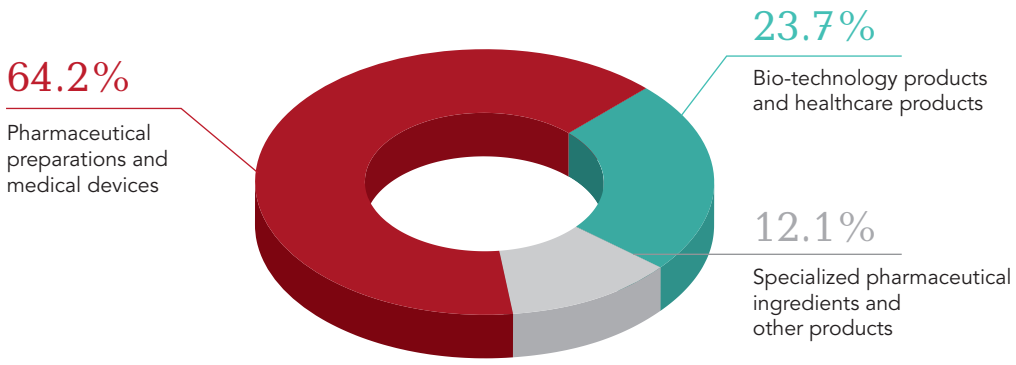
Xin Wei Ning

Rui Zhu

Jinsang series

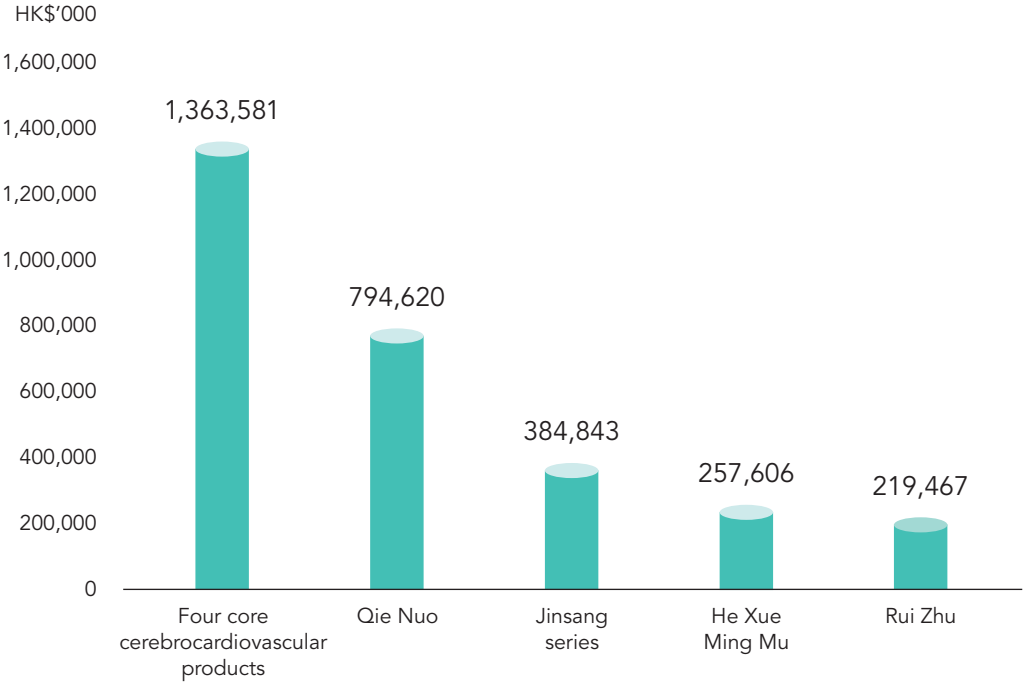
THE REVENUE ANALYSIS OF THE GROUP BY BUSINESS SEGMENTS IS AS FOLLOWS:

Table 1.7



THE REVENUE ANALYSIS OF THE GROUP'S CORE PRODUCTS IS AS FOLLOWS:

Table 1.8



INDUSTRY REVIEW

In the early 2020, the outbreak of 2019 coronavirus ("COVID-19") epidemic seriously affected the global economy. According to the data of Organization for Economic Cooperation and Development (OECD), in 2020, the world GDP declined by 4.2% while China's GDP grew at 1.8%, lower than 6.1% which was recorded in 2019. Wuhan in Hubei, the center of the epidemic, suffered intensely. In 2020, Hubei's GDP dropped by 5.0% year-on-year, a sharp decline from the growth rate of 7.5% in 2019. Wuhan's GDP decreased by 4.7% year-on-year, representing a distinct difference from the growth rate of 7.8% in 2019. The Group's major subsidiaries, including Grand Pharma (China) Co., Ltd. ("Grand Pharma (China)"), which are located in Wuhan, Hubei, have also been inevitably affected. Actively coordinating with the implementation of national policies to make a contribution to the fight against the epidemic and undertake social responsibilities, the Group has been advancing in spite of difficulties to actively ensure the resumption of work and production, and thus a stable and rapid growth of the Company.

Given the outbreak of the epidemic, public awareness towards disease prevention and control and health protection among society increased. Government regulatory authority rapidly responded to and adjusted the relevant policies and technical guidelines for selecting potential drugs, conducting clinical research, launching clinical research of drugs and approval of pharmaceutical equipment under emergency, which laid a foundation for the new development of pharmaceutical innovation. Driven by the medical reform policy and "Three Medical System Reform", although the competitive landscape of the medical industry has been yielding good results, higher requirements are imposed on the pharmaceutical enterprises which cause greater challenges.

Under such complicated background, sticking to "patients-centered and innovation-driven", the Group strives for market opportunities and increases investment in global innovative products and advanced technologies in response to unmet clinical needs for the purpose of enriching and improving the product pipelines and industrial layout and accelerating the product applications. While actively complying with market development and policy direction, the Group will adhere to the strategy of "global expansion and dual-cycle operation" with focus on high-quality domestic and overseas innovation projects, thereby continuously expanding product pipelines, extending the business model and strengthening the promotion of pharmaceutical innovation. Through a pattern of domestic and international cycles that synergize with each other, the Group is committed to constantly enhancing its core competitiveness and providing returns to its shareholders and community.

GROUP POSITIONING

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company", together with its subsidiaries, the "Group") is an international pharmaceutical company of technological innovation. The core products of the Group cover several major businesses represented by the anti-tumor, cardiovascular emergency pharmaceutical products and advanced cerebro-cardiovascular intervention medical devices, anti-virus and anti-infection, respiratory and ENT, bio-health products and specialized pharmaceutical ingredients. The Group has mainly focused on four business scopes, namely "innovative drugs with high entry barriers", "branded drugs", "integration of raw materials", and "nutrition products". There are three major segments of global innovation and technology leadership, namely precision interventional diagnosis and treatment, Radionuclide-drug conjugate ("RDC") and immunotherapy, to be carried out with a forward-looking view by the Group. The Group has invested four technology R&D platforms and five R&D centers around the world. The technology R&D platforms consist of the RDC technology platform, DNA R&D technology platform, mRNA R&D technology platform and Glycomics R&D technology platform. The R&D centers include the International R&D Center in Optics Valley in Wuhan (under preparation of construction) as well as four overseas R&D centers (namely San Diego R&D Center — Immunotherapy (DNA Technology) Anti-tumor in the United States, Boston R&D Center — Precision Interventional Anti-tumor in the United States, Belgium R&D Center — mRNA, and Australia R&D Center — Anti-virus and Anti-infection). Upon the principles of meeting the needs of patients, adapting to market development and insisting on technological innovation as well as the development concept of "comprehensive strengths, innovation barriers and global expansion" and the strategy of "dual-wheel driving development of independent R&D, global expansion and dual-cycle operation", the Group has formed a new pattern of domestic and international cycles that synergize with each other, and is committed to becoming an international pharmaceutical company of technological innovation, delivering on its promises for doctors and patients, and making significant contribution to the society.

BUSINESS REVIEW

Revenue

For the year ended 31 December 2020, the Group recorded revenue of approximately HK$6,352.92 million, representing a slightly decrease of approximately 3.6% as compared to the corresponding period in 2019. If excluding the impact of RMB exchange rate changes, the Group's revenue decreased by approximately 2.7% as compared to the corresponding period in 2019. The decrease was mainly derived from the impact of COVID-19 epidemic, certain hospitals were restricted for access during a period of time and temporary suspended provision of non-emergency services, and thus put pressures in the sales of prescription drugs. In the meanwhile, the Group's continuous expansion of the out-of-hospital market and strengthening of cooperation with various e-commerce platforms resulted a substantial growth in the sales of over-the-counter drugs on e-commerce platforms and retail pharmacies, which offset the drop of prescription drugs. During the year, since the Group continued to optimize its profit structure, constantly promoted the development strategy of innovative and barrier drugs, and focused on promoting the sales of innovative high-barrier and high-margin products, the Group's gross profit margin was approximately 63.5%, which was 2.2 per cent points more than the gross profit margin of 61.3% for the corresponding period in 2019.

The total profit for the year attributable to owners of the Company for the year ended 31 December 2020 amounted to approximately HK$1,792.66 million (2019: HK$1,150.95 million) which including the gain from changes in fair value of investment in Telix amounted to approximately HK$268.31 million, with an increment of approximately 55.8% as compared with the same period of last year. If disregarding the fluctuation of exchange rate between RMB and HK$, for the year ended 31 December 2020, the total profit attributable to the owners of the Company for the year increased by approximately 57.2% as compared to the same period of last year. If disregarding the gain from changes in fair value of investment in Telix, the total profit attributable to the owners of the Company for the year amounted to approximately HK$1,524.35 million, increased by approximately 32.5% as compared to the same period of last year.

Pharmaceutical Preparations and Medical Devices

Pharmaceutical products and medical devices are currently the major sources of profit contribution of the Group. Major products include respiratory and ENT medicines, cerebro-cardiovascular emergency medicines and medical devices. For the year ended 31 December 2020, the revenue from pharmaceutical products and medical devices was approximately RMB3,632.65 million, representing a decrease of approximately 3.5% as compared to revenue of approximately RMB3,763.05 million for the corresponding period in 2019, which was mainly due to the slight decrease in the sales of prescription drugs.

- **Respiratory and ENT medicines and devices**

  In recent years, the Group has devoted to building the most comprehensive supply chain of respiratory and ENT medicines in the PRC, covering the prescription drugs, over-the-counter drugs, Chinese medicines, medical devices, medical consumables and healthcare products, etc., and providing treatment solutions and care to medical professionals and patients. For the ophthalmic aspect, the Group has multi-channel industrial advantages and strong brand awareness in the market. Taking full advantages of multi-product portfolio, which has rapidly penetrated to the grassroots market and retail terminals, coupled with the online promotion strategy of e-commerce platforms, the Group and product brands have gained widespread recognition among consumers. There will be launching of new products in the future to enhance the competitiveness of the Group in the respiratory and ENT medication field. During this year, the revenue from respiratory and ENT medicines and devices was approximately RMB1,939.72 million, representing a decrease of approximately 11.0% as compared to the corresponding period in 2019, which was mainly due to a certain degree of impact during the epidemic on the sales of respiratory and ENT products, in particular prescription drugs, and decrease in the number of visits for respiratory diseases, of which:

  — Ophthalmic: For the year ended 31 December 2020, the revenue from ophthalmic products of the Group was approximately RMB754.55 million, representing an increase of approximately 0.9% as compared to approximately RMB748 million for the corresponding period in 2019. The core over-the-counter eye drops "Rui Zhu" achieved remarkable results and satisfactory sales growth in the vigorous expansion of e-commerce platforms and pharmacy retail. The revenue for the period was approximately RMB195.32 million, representing an increase of approximately 28.6% as compared to approximately RMB151.93 million for the corresponding period in 2019.

  — Respiratory and ENT: For the year ended 31 December 2020, the revenue from respiratory and ENT products of the Group was approximately RMB1,185.17 million, representing a decrease of approximately 17.2% as compared to approximately RMB1,431.09 million for the corresponding period in 2019. The major product "Qie Nuo" is an exclusive product of the Group and was listed in the Procurement Catalogue of Huoshenshan and Leishenshan Hospitals during the epidemic, yet the number of visits of patients with respiratory problems dropped significantly and the sales of prescription drugs fell inevitably due to the suspension or attendance restriction of some hospitals in the PRC during the epidemic. The relief of the epidemic in the second half of the year prompted a certain degree of recovery in the sales. During the year, the revenue from "Qie Nuo" was approximately RMB707.19 million, representing a decrease of approximately 22.3% as compared to the corresponding period in 2019. Meanwhile, the revenue from the Jinsang series, which are prescription drugs, has also decreased by approximately 11.3% to approximately RMB342.5 million due to the above reasons.

- **Cerebro-cardiovascular medicines and medical devices**

  The Group's cerebro-cardiovascular emergency products mainly cover the fields of platelet inhibitors, blood-pressure control, vasoactive drugs, etc., in which the platelet inhibitors injections and vasoactive drugs are in the leading position of the PRC market. With the excellent clinical effects of the above products, the increasing recognition of and reliance on the Group's products among medical professionals and patients, and the steady expansion of the hospitals' coverage networks, for the year ended 31 December 2020, the revenue from the Group's cerebro-cardiovascular medicines was approximately RMB1,326.24 million, representing an increase of approximately 13.5% as compared to the corresponding period in 2019. Among which, four core products, namely "Li Shu An", "Nuo Fu Kang", "Xin Wei Ning" and "Rui An Ji", have contributed a revenue of approximately RMB1,213.55 million in aggregate, representing an increase of approximately 10.2% as compared to the corresponding period in 2019.

Bio-technology Products and Health Products

The bio-technology products and healthcare products of the Group include Taurine, amino acid products, bio-pesticides, bio-feed additives and steroid products, etc. During the year, the revenue from bio-technology products and healthcare products was approximately RMB1,337.70 million, representing a decrease of approximately 2.5% as compared to the corresponding period in 2019. By virtue of the business expansion strategy of international business and healthcare business, the revenue from the Group's amino acid products was approximately RMB569.92 million, representing an increase of approximately 16.7% as compared to the corresponding period in 2019, and the revenue from products related to bio-pesticides and bio-feed additives also recorded an increase of approximately 10.4%. Since the completion of safety production rectification and acceptance of the production plant for steroid products, steroid products will bring revenue contributions to the Group in coming years.

Specialized Pharmaceutical Raw Materials and Other Products

Specialized pharmaceutical ingredients and other products are the relatively stable segment among the product segments of the Group. As an important part of the front end of the integrated supply chain of pharmaceutical ingredients and products, the Group has always been proactively improving technology level and product quality, reforming the product production technology to increase efficiency, and adjusting the product matrix to enhance market competitiveness and improve economic efficiency. However, subject to the overall decline in the pharmaceutical industry owing to the epidemic, the relevant revenue of this segment recorded approximately RMB683.58 million which is similar to those in the same period of last year.

Distribution Costs and Administrative Expenses

For the year ended 31 December 2020, the distribution costs and administrative expenses were approximately HK$1,860.08 million and HK$685.24 million respectively, as compared to approximately HK$2,239.49 million and HK$609.62 million respectively for the corresponding period in 2019. The decrease in distribution costs was mainly due to impact of the epidemic in the first half of the Year on the market development and team expansion of sales representatives to a certain extent, and it has gradually returned to normal operation in the second half of the Year. The distribution costs accounted for approximately 29.3% of the revenue for the Year, which was slightly lower than that of approximately 34.0% for the corresponding period in 2019. During the epidemic in the first half of the Year, the Group followed the epidemic prevention measures adopted in the national policies, such as home office, resulting in a decrease of approximately 12.4% in the overall administrative expenses as compared to the corresponding period in 2019.

Finance Costs

For the year ended 31 December 2020, the Group's finance costs amounted to approximately HK$115.42 million as compared to approximately HK$146.50 million for the corresponding period in 2019. During the Year, the Group adjusted its loan portfolio by taking advantage of the consecutive supportive policies for industries introduced by the central and local governments, resulting in a significant decrease of approximately 21.2% in the overall finance costs.

Research and Development Investment

For the year ended 31 December 2020, the Group invested a large amount of funds for the pre-clinical research, clinical trials, listing and registration phases of research projects, which generated a total of HK$219.31 million in the research and development expenses. If the advance payment for new projects is added, the total research and development investment expenditures amounted to over RMB1.5 billion in 2020.

Research and Development

The Group is one of the earliest domestic pharmaceutical companies that have performed transformation of technological innovation and internationalization, devoting itself to building a system of innovative R&D and outstanding talents. The Group has formed a unique layout and concept of technological innovation and development via active cooperation with the world-leading pharmaceutical companies, universities and scientific research institutions. In line with the strategic concepts of international layout, differentiated innovation and professional development for core therapeutic areas, the Group has formed a product layout which focuses on four major segments, including tumor treatment, cerebro-cardiovascular precision interventional diagnosis, anti-virus and anti-infection and respiratory and ENT. The Group's comprehensive layout in the tumor field reflects the forward-looking, technological and innovative concepts of tumor treatment. On the one hand, it combines traditional radiotherapy with modern technology to develop SIR-Spheres® Y-90 resin microspheres and RDC drugs. On the other hand, it creates new tumor immunotherapy products, such as oncolytic viruses, DNA immunotherapy and mRNA tumor vaccines, etc., to solve the ineffectiveness and drug resistance of tumor immunotherapy. For cerebro-cardiovascular precision interventional diagnosis, the Group is committed to building a world-leading pan-vascular precision interventional diagnosis platform, covering coronary artery, peripheral vascular disease, neurological intervention and structural cardiac disease, which will further expand to the field of electrophysiology and heart failure, so that a comprehensive layout may be achieved. Apart from the field of anti-tumor and cerebro-cardiovascular precision intervention, there are also a number of world's first-in-class innovative drugs in the two important core therapeutic areas of anti-virus and anti-infection and respiratory and ENT. At present, the Group has sufficient and reasonable R&D pipelines comprised of 107 projects under research and 43 innovative projects, involving in different stages from pre-clinical to new drug application, and thus forming a good echelon effect.

For R&D team and platform, the Group and its associates have more than 500 R&D personnel, including nearly half of the talents with master's or doctorate degrees, and over 30 prestige scientists worldwide. The Group has taken part in four technology R&D platforms (radionuclide-drug conjugates technology platform, DNA R&D technology platform, mRNA R&D technology platform and Glycomics R&D technology platform) and five R&D centers (the International R&D Center in Optics Valley in Wuhan (under preparation of construction) as well as four overseas R&D centers) around the world. For R&D investment, in addition to increasing R&D investment in product pipelines, the Group also increased investment in the construction of R&D platforms. The total investments in R&D and projects during 2020 was over RMB1.5 billion. The International R&D Center in Optics Valley in Wuhan commenced construction works during the first quarter of 2021, in which will cover pharmaceutical ingredients R&D, peptidomics, high-end preparations and other specialized R&D platforms.

Along with the high-level R&D capability, fruitful R&D results have been achieved during the year, including one medical device registration certificate (APERTO, a drug-coating balloon). Four projects pass or are regarded as passing the consistency evaluation and eight products complete the R&D milestones.

Technology Innovative Pipeline

- **Cerebro-cardiovascular Precise Intervention**

In the field of cerebro-cardiovascular precision intervention, the Group has six innovative products covering three directions, including vascular intervention (coronary artery intervention and peripheral vascular intervention), neurological intervention and structural cardiac disease. Among which, two products for coronary artery and shunt restenosis in arteriovenous fistulas were approved to launch and other products are underway orderly. In the future, the Group will also comprehensively deploy in the fields of electrophysiology and heart failure, striving to build a world-leading cerebro-cardiovascular precision interventional diagnosis and treatment platform.

Germany-based Cardionovum has three drug-coating balloon products that specialize in vascular intervention, covering three sectors of coronary, arteriovenous fistula and peripherals. Among them, RESTORE DEB, being the only coronary drug-coating balloon for the treatment of two indications (de novo coronary artery lesions and in-stent restenosis), was granted the "medical device registration certificate" by the NMPA in September 2019. Compared with the commonly used stents in clinical practice, given there are no external objects being implanted, balloon therapy is able to retain an opportunity for subsequent treatment, while reducing the risks caused by inflammation and thrombosis. The coated anti-cell proliferation drugs may inhibit vascular intimal hyperplasia for a long time. Such concept of "intervention without implantation" represents a new trend in cardiovascular interventional diagnosis and treatment. Currently, the marketing campaign for this product has been fully rolled out. In April 2020, APERTO OTW, the first drug coating balloon for the treatment of shunt restenosis in arteriovenous fistulas in hemodialysis patients, was also granted the medical device registration certificate by the NMPA. This product has the dual characteristics of high pressure resistance and drug coating. Compared with ordinary high pressure balloon, APERTO OTW has an overwhelming advantage in the patency rate of target lesions at six months after surgery. It is a revolutionary product by making a significant contribution to extend the lifetime of fistula and improve the quality of life of dialysis patients. In addition, the product LEGFLOW OTW for peripheral vascular diseases has also entered into clinical research stage and is expected to be launched in 2024.

In the field of neurointervention, the Group has a stent retriever product against ischemic stroke, LONG. With reference of mature interventional technology and stent of coronary and peripheral, neurological stent retriever can extend an ischemic stroke patient's treatment window from 6 hours to 24 hours of drug treatment, becoming a new clinical method for treating cerebral stroke. Such product is a critical step for the achievement of the Group's target of "treating the heart and brain with the same therapeutic method". Currently, the product is in the pre-clinical research stage and is expected to enter into clinical stage in 2021 and obtain the approval for launch from the PRC in 2024. The Group also reserved a coronary diagnosis product NOVASIGHT Hybrid, which combines intravascular ultrasound/optical coherence tomography and can simultaneously show the ultrasound and optical image with the same direction, axis and phase. It is also the first intravascular ultrasound/optical coherence tomography system approved by the U.S. Food and Drug Administration ("FDA") with promising prospect in the field of coronary artery imaging and intracavitary interventional surgery. This product has already been launched in the United States, Canada and Japan, and was enrolled in the special review approval process of innovative medical device in 2019 for registration in China. Currently, the product has entered into the clinical stage and is expected to obtain the approval for launch from the PRC in 2022.

In terms of structural cardiac disease, the Group has a 3D intracardiac echocardiography product, FORESIGHT ICE. FORESIGHT ICE is a 3D intracardiac echocardiography imaging system, which can offer an immediate and direct intracaval imaging information with high precision. It can make significant contribution in radiofrequency ablation or preoperative diagnosis and intraoperative guidance of structural heart disease. This product obtained approval for commercialization in United States and Canada, and it is actively prepared for the clinical registration works in China.

- **Anti-tumor**

  In the field of tumor treatment, the Group currently has 12 products under research, covering 9 tumor indications. Through the product portfolio, the Group expands into internal medicine, surgery, interventional medicine, nuclear medicine and other departments to form a multi-disciplinary synergy so that tumor treatment products can serve patients in different areas and departments. The Group actively explores the development channels and sales channels of tumor products globally and strives to become a leading innovative technology enterprise in the anti-tumor area across the world.

  SIR-Spheres® Y-90 resin microspheres, the main product of Sirtex (as an associate of the Group), are used in selective internal radiation therapy for malignant liver tumors and are the world's only radioactive microspheres formally approved by the FDA. It has been used by over 100,000 people in 50 countries and regions around the world and has been included in the National Comprehensive Cancer Network (NCCN), the European Society for Medical Oncology (ESMO) and other authoritative treatment guidelines as well as several authoritative clinical practice guidelines for liver cancer at home and abroad. In June 2020, the exemption from an investigational new drug ("IND") application of SIR-Spheres® Y-90 resin microspheres was formally accepted by Center for Drug Evaluation (CDE), NMPA of the PRC, while a NDA was officially submitted to and accepted by the NMPA of the PRC in November 2020. It is expected that the product will be approved for launch at the end of 2021 in the PRC.

  In the field of RDC, the Group has carried out in-depth layout. It has obtained the exclusive rights of 6 global innovative radionuclide-drug conjugates covering 3 cancer types, namely prostate cancer, cell renal cell carcinoma and glioblastoma, in the Greater China Region from Australia based Telix. RDC is a unique and innovative field that has developed rapidly in recent years. Molecular probes and radionuclides are coupled through coupling agents to target tumor cells. This is the first time that radionuclides have reached a molecular level of diagnostic and therapeutic technology, which in turn could realize the clinical integration of diagnosis and treatments. The new drug application of TLX591-CDx, a Telix's diagnostic RDC drug for prostate cancer, has been accepted by the FDA in the United States. TLX250CDx, a diagnostic product for clear cell renal cell carcinoma, has been granted breakthrough therapy designation by the FDA in the United States. TLX101, a diagnostic and treatment product for glioblastoma, has been granted orphan drug designation by the FDA in the United States. TLX591-CDx is the world's innovative radionuclide-antibody conjugated diagnostic radiopharmaceutical product targeting prostate-specific membrane antigen (PSMA) and is suitable for diagnosis of metastatic prostate cancer. It is currently the fastest RDC project under development using Positron Emission Tomography (PET) for the imaging of prostate cancer, expected to be the first approved radiopharmaceutical product by the FDA. The clinical work on the other 5 products is also well underway. In the field of radiopharmaceuticals, the Group has forward-looking insights into the industry's growth and future development space by deploying an early layout for Sirtex's SIR-Spheres® Y-90 resin microspheres and Telix's RDC products. The obtaining of the relevant qualifications to carry out radiopharmaceutical operations in the PRC upon acquisition of Beijing Puer Weiye Biotechnology Co., Ltd. ("Puer Weiye") and the forming of strategic partnerships with Jiangsu Institute of Nuclear Medicine and the Nuclear and Radiation Safety Center of the Ministry of Ecology and Environment are important strategic layouts for the Group to continue to deepen its development in the field of radiopharmaceuticals. It continues to build barriers to innovation through the layout of radiopharmaceutical projects in clinical and early R&D stage, hoping to become a global leader in the field of radiopharmaceuticals.

The world's first gene immunotherapy product OncoSec TAVO™, as a potential treatment for refractory metastatic melanoma, applies TAVO electroporation (TAVO-EP) delivery system to inject DNA-based interleukin-12 ("IL-12") inside tumors. IL-12 is a natural protein with powerful immune stimulation to stimulate the human immune system to target and attack cancers. TAVO™ was granted Fast Track designation by the U.S. FDA in 2017 and as an orphan drug for the treatment of unresectable metastatic melanoma. Currently, a registration-enabled phase IIb clinical trial for the treatment of anti-PD-1 checkpoint resistant metastatic melanoma with the pure anti-PD-1 drug KEYTRUDA® (Generic name: pembrolizumab) is underway. The interim data of the experiment demonstrated excellent clinical efficacy and safety. In terms of clinical efficacy, in a clinical trial with 100 planned patients, the ORR of the first 54 patients was 30% and the complete response (CR) rate was 6%, which was much higher than the primary efficacy endpoint for the study determined by blinded independent review (a 20% ORR); and in terms of safety, only 5.4% of patients suffered grade 3 treatment-related adverse events and there were no grade 4/5 treatment-related adverse events. It is expected that OncoSec can apply for accelerated approval with the U.S. FDA based on the final ORR data from this phase IIb clinical trial. Clinical studies on indications such as TAVO™ triple-negative breast cancer and squamous cell carcinoma is undergoing steadily. As a platform technology, TAVO™ can also be extended to the field of infectious disease vaccines. In April 2020, CORVax12, a DNA vaccine against COVID-19 jointly developed by OncoSec and Providence Cancer Institute, has obtained IND approval from FDA and a first-inhuman Phase I Investigator-Initiated trial was launched. CORVax12 is the DNA vaccine based on TAVO™ electrotransfer technology, which is expected to provide a new pathway for research and development of COVID-19 vaccine.

The Group and Belguim based eTheRNA established a company Nanjing AuroRNA Biotech Co., Ltd. ("AuroRNA Biotech") in Nanjing. AuroRNA Biotech has R&D and production platforms with advanced mRNA technology and LNP technology for tumor immunotherapy as well as research, development and production of mRNA vaccine for infectious disease. AuroRNA Biotech has a global innovative mRNA product for HPV-positive head and neck cancer introduced from Belguim based eTheRNA. By triggering an adoptive immune response in the body, it can be used in combination with existing tumor immune checkpoint inhibitor to effectively increase the response rate of patients with cancer and improve their clinical prognosis. The product is currently in the pre-clinical development stage.

In order to strengthen the in-depth development in the tumor immunity field, the Group introduced a worldwide innovative Vesicuar Stomatitis Oncolytic Virus product ("VSV-GPM") REV-001 for the treatment of colorectal cancer from Shanghai Revolmmune Therapeutics Biotechnology Limited ("Revolmmune"). This product is the only oncolytic virus that does not insert exogenous genes, where the genetically modified virus enhances the selectivity of tumor cells, but is less toxic to normal cells. In addition, the virus genes will not be integrated into the human cell genomes and has no risk of genotoxicity with higher safety. REV-001 targets the RAS protein of refractory tumors. Refractory tumors with this target have high incidence rate, high malignancy and high fatality rate. Currently, there is no effective treatment method for the targeted refractory tumors. The product is currently in the pre-clinical development stage.

- **Anti-virus and Anti-infection**

For the anti-virus and anti-infection field, the Group currently has three global innovative drugs with new mechanisms of action in the research pipeline, of which two products are used for the treatment of sepsis and one product is used for the treatment of parainfluenza. The Group's layout in this field is based on the in-depth exploration of unsatisfied clinical needs. The forward-looking layout in respect of sepsis, viral infections and other diseases that pose a major threat to human health not only broadens the product pipeline of the Group, but also increases the comprehensive competitiveness and risk-resistant capability of the Group in the entire industry.

The clinical progress of STC3141, a world-wide innovative drug for the treatment of sepsis, was rapid and Phase Ib clinical research for the treatment of ARDS was approved to commence in the PRC in March 2021. The Phase II clinical research, for the treatment of ARDS caused by COVID-19 infection and Phase Ib clinical research for the treatment of sepsis were approved to commence in Australia in May 2020. Currently, the first patient has been dosed in Phase Ib clinical trials for the treatment of sepsis. APAD, another drug of the Group for the treatment of sepsis, has undergone compound screening and is in the pre-clinical development stage currently. APAD can antagonize a variety of pathogen-related molecules, and can treat sepsis caused by bacterial and viral infections. It is complementary to the STC3141 on antagonizing the excessive immune response of the body to treat sepsis. Sepsis, commonly known as blood poisoning, is an immune system disorder caused by infection, which can lead to life-threatening organ dysfunction. It is a common fatal complication of patients with severe infections such as burns, trauma and major surgery and tumors. Sepsis affects more than 31.5 million people worldwide each year, of which over 19.4 million patients are with severe sepsis, and the fatality rate of severe sepsis is higher than a quarter. By far, there is a lack of available targeted drugs for sepsis, a disease with relatively high incidence and fatal rate, indicating an urgent clinical demand for sepsis drugs and tremendous market potential.

The new parainfluenza drug jointly developed by the Group and Griffith University is another key deployment of the Group in the field of anti-virus and anti-infection. The product is a global innovative small molecule compound based on protein structure design with a clear mechanism of action. It binds the hemagglutinin-neuraminidase (HN) protein that covers the parainfluenza virus (HPIV) and stops the virus from entering the host cell for replication and reduces the number of parainfluenza virus particles with the aim of curing parainfluenza infection. HPIV is a common pathogen of community-acquired respiratory tract infections. Among children hospitalized with lower respiratory tract infections, HPIV is the second largest pathogen after respiratory syncytial virus (RSV). Children, the elderly and people with immune deficiency are the main susceptible groups. Such people are prone to severe symptoms such as bronchitis, pneumonia and even respiratory failure after HPIV infection with a certain fatality rate. Currently, there are no available drugs and vaccines approved for the treatment of HPIV infection in the world, which implies unsatisfied clinical needs. At present, new parainfluenza drugs are in the stage of compound screening.

- **Respiratory and ENT**

Respiratory and ENT are the traditional fields of strength of the Group. In order to further strengthen the innovation reserve in this field, consolidate its dominant position in the market and enhance its competitiveness, the Group has deployed three innovative drugs in this field to further improve the product system of this field.

BRM421 is the global innovative product for the treatment of dry eye disease introduced by the Group from BRIM Biotechnology, Inc. This product is small molecule peptide eye drops that can accelerate the division and proliferation of limbal stem cells, and in turn stimulate the repair of ocular surface for curing the dry eye disease. According to the "Consensus in the Diagnosis and Treatment of Dry Eye Disease (2013) (乾眼臨床診療專家共識(2013年))", the incidence rate of dry eye disease in China is approximately 21–30% but the overall medical consultation rate is relatively low and the available treatment options are limited, which indicates there are still huge and unsatisfied clinical needs in this treatment field. The therapeutic products for dry eye disease that are currently available in overseas market and are expected to be launched in China in the coming years such as cyclosporine eye drops, generally take three to six months to take effect and is obviously irritating to eye. According to the Phase II clinical study data completed in the United States, the BRM421 product has high safety and low irritation, as well as the potential to quickly alleviate the symptoms of dry eye disease within two weeks. Currently, the product is under steady progress of registration in the PRC.

The CBT-001 product for the treatment of pterygium from Cloudbreak Bio-Pharmaceutical Science and Technology (Guangzhou) Co., Ltd. and CloudBreak Therapeutics LLC (collectively the "Cloudbreak") is another global innovative product in the field of ophthalmology obtained by the Group. Pterygium is a common chronic inflammatory and proliferative ocular surface disease. It is usually found at the corner conjunctiva and may gradually affect the cornea, causing astigmatism or blocking the pupil, which results in diminution of vision and even blindness. According to statistics, the overall prevalence of pterygium is about 10%, and it may increase in direct proportion with age. In China, the prevalence of people over 40 years old is about 13.4% or nearly 90 million patients. Currently, there is no specified medicine for the treatment of pterygium. This shows that there are still huge and unsatisfied clinical needs in this field. CBT-001 is an innovative and improvement from an existing drug, Nintedanib, which is used for the treatment of pulmonary fibrosis. It inhibits neovascularization and tissue fibrosis. Currently, phase II clinical trial has been completed in the United States. It has high safety and significant clinical efficacy, and can inhibit the growth of pterygium and control the deterioration of the disease. It is planned to commence a global multi-center phase III clinical trial for CBT-001 in 2021 to facilitate the commercialization. Currently, it is under evaluation to include the Chinese region in the global multi-center phase III clinical trial. If approved, it is expected to speed up the approval of the commercialization of CBT-001 in China.

Ryaltris, the new compound nasal spray, is a product that the Group has been granted the exclusive commercialization rights in China by Glenmark. The product contains olopatadine (665 mcg) and mometasone (25 mcg). It is a new type of glucocorticoid and antihistamine compound nasal spray for the treatment of seasonal allergic rhinitis in patients over 12 years old. Glenmark has completed the phase III clinical study of Ryaltris and filed an NDA application to the FDA, which is currently under review. In addition, the product has been approved for listing in Australia, and the IND application for import registration in the PRC is also under preparation.

R&D Team

The Group has taken part in four technology R&D platforms and five R&D centers around the world. The Group has over 30 prestige scientists worldwide. The global R&D center has begun to take shape, and the globalized R&D planning has gained progressive achievement. The Group and its associates have 526 R&D personnel in total (including overseas R&D teams such as Sirtex and OncoSec), representing a significant increase more than 70% as compared to the corresponding period of 2019, among which, 258 persons hold master's or doctorate degrees, accounting for nearly 50%, with over 300 personnel in the direct R&D team. All professional leaders and core team members of each segment have academic background in clinical medicine or pharmacy, while some of whom also have overseas education or working experience.

Establishment of R&D Headquarters

The Group plans to invest over RMB50 million in establishing the China Grand Pharmaceutical's International R&D Center in Optics Valley located in Wuhan, Hubei. The laboratory adopts an intelligent management system and focuses on innovative drugs, rare disease drugs, precision medicine, biosynthesis and other fields, covering pharmaceutical ingredients R&D, peptidomics, high-end pharmaceutical products and other specialized R&D platforms.

Consistency Evaluation

During this period, finasteride tablets, glipizide tablets, captopril tablets and milrinone injection have been approved to pass or deemed to pass the consistency evaluation, among which, glipizide tablets and milrinone injection were the first of their varieties to have passed the evaluation, and nimesulide tablets have been refiled. As of now, a total of seven products of the Group have been approved to pass the consistency evaluation (sodium bicarbonate tablets, metronidazole tablets, trimetazidine tablets, glipizide tablets, finasteride tablets, captopril tablets and milrinone injection), while seven other products are under evaluation (lafutidine tablets, norepinephrine bitartrate injection, adrenaline hydrochloride injection, tirofiban hydrochloride and sodium chloride injection, nimesulide tablets, indapamide tablets and metoprolol tartrate tablets).

Intellectual Property Protection

During the period under review, the Group filed for over 20 core patents and 60 peripheral patents and received over 80 invention patents, in which nearly a half are authorized invention patents. Cumulatively, the Group has obtained over 300 valid patents, including over 200 invention patents and over 100 utility model patents and apparel design patents.

For innovative drugs, the core PCT patents of ARDS and sepsis for the STC3141 have been filed in 11 countries or regions and the transfer of the patent rights of core compound for APAD has been completed; while the core PCT patents of the new parainfluenza drug were further granted in 17 countries or regions in Australia and Europe and patent protection has been established in Australia, Europe and the United States. The patent of the carrier technology of mRNA project has been filed under PCT, and it is planned to enter major countries or regions including China; three core patents of oncolytic virus have been filed; eight patents and six authorizations have been newly granted for drug-coated balloons and LONG (stent retriever).

Material investment, M&A and Cooperation

During this period, the Group continued to implement the development strategy of "self-development + global expansion", further exploring high-quality innovative projects around the world to expand the Group's product pipeline and enhance the Group's comprehensive strengths, and putting vigorous efforts in transformation towards innovation and internationalization. On the one hand, the Group has gained innovative ophthalmic and ENT drugs by relying on the existing advantageous areas such as respiratory, ophthalmic and ENT. On the other hand, with a focus on the three major directions of "cerebro-cardiovascular precise intervention field" and ""radionuclide and anti-tumor immunology platform" and "anti-viral and anti-infection field", the Group has continued the expansion and development strategy in respect of domestic and overseas projects. While building a "cardio-vascular precise intervention treatment platform", the Group explored worldwide innovative anti-infection drugs and expanded to the sector where gaps in the treatment still exist with urgent clinical needs. Leveraging on the Group's outstanding commercialization and business development capabilities as well as sufficient cash flow, the Group's domestic and overseas project reserves are abundant at this stage, while the M&A projects are progressing steadily as well.

- **Development and Commercialization Rights of a World-wide First Developed New Drug APAD for Sepsis**

  In March 2020, the Group entered into a technology transfer agreement with Chongqing AnTi New Bio-technology Limited ("AnTi New Bio-Tech") to obtain the technological and related intellectual property rights around the world (in which AnTi New Bio-Tech will keep certain development and commercialization rights in places other than the Greater China Region) for a world-wide first developed new drug APAD which is used for the treatment of sepsis from AnTi New Bio-Tech, and to be able to develop, manufacture and sell related products. APAD is an innovative drug with a mechanism of antagonizing broad-spectrum pathogen-associated molecule. In terms of the effect of sepsis treatment, APAD is complementary with the STC3141. In addition, it is expected to share the R&D resources with the STC3141 to create synergy.

- **Licensing Cooperation for a New Drug CBT-001 for Treatment of Pterygium**

  In April 2020, the Group entered into a product licensing agreement with Cloudbreak to obtain an exclusive production (including technology transfer) and commercialization right in the Greater China Region for a worldwide innovative product CBT-001 developed by Cloudbreak with a coverage of the application of CBT-001 over all indications including pterygium, and to enjoy the priority cooperation rights to interests in the Greater China Region for other pipeline product candidates. In addition, the Group will subscribe for the shares of Cloudbreak Therapeutics LLC ("Cloudbreak Cayman") at the consideration of approximately USD5.63 million, which will represent approximately 7.07% equity interest of the enlarged share capital of Cloudbreak Cayman after it completes the reorganization. The Group introduced the first globally innovative pterygium product in the ophthalmic sector, which further enriched the product pipeline in such sector.

- **Subscription for Equity Interest in eTheRNA and Exclusive Strategic Cooperation for mRNA Platform**

  In May 2020, the Group entered into an equity investment agreement with eTheRNA, which is located in Belgium, to make an equity investment of EUR9 million in eTheRNA and obtain approximately 12% of the class B preferred shares of eTheRNA after relevant conditions being fulfilled. Up to now, such equity investments have been fully completed. At the same time, the Group has agreed certain terms for strategic cooperation (subject to further negotiation), including but not limited to setting up a joint venture company, introducing the mRNA production technology of eTheRNA, performing independent R&D, production and commercialization activities in the fields of tumor immunology and infectious disease prevention, as well as obtaining the exclusive development and commercialization rights of eTheRNA's pipeline projects under research in the Greater China Region. In November 2020, the Group entered into a strategic cooperative agreement and product licensing agreement with eTheRNA, pursuant to which the Group and eTheRNA will set up a joint venture company Nanjing AuroRNA Biotech Co., Ltd. ("AuroRNA Biotech") in Mainland China to build an independent and integrated mRNA technology research and development ("R&D") and production platform to conduct R&D and production of mRNA technology. The Group will invest approximately EUR8.1 million and obtain 75% equity interests of AuroRNA Biotech. At the same time, AuroRNA Biotech will obtain the exclusive licenses of the world's innovative HPV-positive head and neck cancer products and in Mainland China, Hong Kong SAR, Macau SAR and Taiwan ("Greater China Region"), as well as the right of first negotiation for future products.

- **Investment in CNCB Fund**

  In June 2020, the Group entered into a subscription agreement to invest in CNCB Grand Healthcare Investment Fund LP ("CNCB Fund"). Pursuant to the subscription agreement, the Group made a capital commitment of US$50 million (equivalent to approximately HK$390 million) and the fund is intended to raise a total of US$200 million. Through direct or indirect investments in securities, instruments and assets in different areas, including but not limited to the world's leading pharmaceutical companies and pharmaceutical device manufacturers (with a primary focus on biopharmaceutical, cerebro-cardiovascular, ophthalmology, tumor treatment and other areas), CNCB Fund will be able to share the Group's R&D and financial risks in such investments, while further expanding the scope of development and enhancement of innovative projects.

- **Equity Subscription of Revolmmune and Licensing Cooperation of World-wide Innovative Vesicular Stomatitis Virus Product**

  In July 2020, the Group entered into an equity investment agreement with Shanghai Revolmmune Therapeutics Bio-technology Limited (the "Revolmmune") to invest RMB30 million in Revolmmune and acquired approximately 9.7% equity interest in Revolmmune upon fulfillment of relevant conditions. At the same time, the principal terms of the product transfer and development cooperation with Revolmmune are subject to further negotiation in order to obtain the global exclusive rights of the VSV-GPM product developed by Revolmmune for the treatment of colorectal cancer (including the global development, production and commercialization rights of the product) and the priority cooperation rights of other products developed by Revolmmune, which further strengthened the Group's presence in the fields of precise intervention diagnosis and treatment and tumor immunology.

- **Investment in Nanjing Fund**

  In July 2020, the Group committed to investing RMB100 million in Nanjing Chuangyi Dongyin Equity Investment Partnership (Limited Partnership) ("Nanjing Fund") of which the proceeds will be used for the investment in medical, healthcare, pharmaceutical and medical device projects.

- **Investment in the New Stent Retriever in the Field of Neurointervention**

  In July 2020, the Group, together with Nanjing Fund and Shanghai Hongsheng Enterprise Management Partnership (Limited Partnership), subscribed and acquired Nanjing Kainite by phases, upon satisfying relevant conditions of the agreement, the Group will ultimately hold 100% equity interest in Nanjing Kainite Medical Technology Company Limited ("Nanjing Kainite") and obtain five medical devices in the area of neurointervention including the third-generation thrombotic stent and its ancillary products for the treatment of ischemic stroke. The Group will expand its product pipeline in precision interventional diagnosis and treatment and build an integrated platform for the R&D, production and sales of medical devices in cardio-cerebrovascular intervention diagnosis and treatment.

- **Subscription for Equity Interest in Nanospectra**

  In September 2020, Sirtex, the Group's associate, and Nanospectra Biosciences Inc. ("Nanospectra") entered into a strategic investment agreement, pursuant to which Sirtex made approximately US$1.5 million equity investment for approximately 6% of first round series B-1 preferred shares in Nanospectra and has the right to appoint a member in the board of director of Nanospectra, and has a limited duration exclusive right of first negotiation for development, production and commercialization rights in Europe and Asia of Nanospectra's world-class innovative medical device AuroLase® for solid tumor ablation in the field of precision anti-tumor intervention, as well as the exclusive right of first negotiation should Nanospectra seek to transfer a controlling interest in the future. Sirtex's cooperation with Nanospectra has expanded its product portfolio in oncology and precision intervention and enhanced its connection to R&D capability in tumor treatment and precision interventional diagnostics and treatment as well as strengthened its core competitiveness.

- **Subscribe Shares of Telix and Exclusive Licensing of Six Nuclide — drug conjugates**

  In November 2020, the Group and Australia based Telix entered into a share subscription agreement, pursuant to which the Group invested US$25 million to subscribe approximately 7.6% equity interests of Telix. In addition, the Group entered into an exclusive arrangement with Telix and obtained the right of exclusive in the Greater China Region for its six innovative first-in-class RDC drugs which cover three cancer types. The six products are TLX591 for treatment of prostate cancer, TLX591-CDx and TLX599-CDx for diagnostics of prostate cancer, TLX250 for treatment of clear cell renal cell carcinoma (ccRCC), TLX250-CDx for diagnosis of ccRCC and TLX101 for treatment of glioblastoma. The cooperation between the Group and Telix as well as the introduction of six radionuclide-drug conjugates will continue to promote the Group's expansion in the tumor field, which is conducive to the formation of the Group's comprehensive advantages of international layout, differentiated innovation and professional development in the tumor field.

- **Entered into Memorandum of Strategic Cooperation with Jiangsu Institute of Nuclear Medicine**

  In November 2020, the Group and Jiangsu Institute of Nuclear Medicine entered into a memorandum of strategic cooperation to reach an agreement on the development, manufacturing, testing and standard formulation, preclinical research and intellectual property of radionuclide-drug conjugates, and to establish a well-functioning mechanism for long-term cooperation, which will enhance the Group's capabilities in development, preclinical research and commercialization of radionuclide-drug conjugates. Jiangsu Institute of Nuclear Medicine is the Key Laboratory of Nuclear Medicine of the National Health Commission of the PRC, the Key Laboratory of Molecular Nuclear Medicine of Jiangsu Province, and the Key Discipline (Laboratory) of Nuclear Medicine of Jiangsu Province. The institute has become a research base of nuclear medicine that is influential both at home and abroad, integrating scientific research, clinical study, information collection and technology development. Under the strategic memorandum of cooperation entered into between the Group and Jiangsu Institute of Nuclear Medicine, the parties will jointly build a platform for radioactive pharmaceuticals, co-develop innovative radiopharmaceuticals, and accelerate the introduction of advanced technology as well as manufacturing, development and application of products that are under development or have been marketed overseas.

- **Acquisition of Puer Weiye**

  In November 2020, the Group and Puer Weiye entered into a share purchase agreement, pursuant to which the Group will acquire 100% equity interests in Puer Weiye for a consideration of not more than RMB10 million subject to conditions precedent. Upon completion of this acquisition, Puer Weiye will become a subsidiary of the Group, and the Group will obtain the "Radioactive Pharmaceutical Production License" and "Radioactive Pharmaceutical Trading License", and obtain the relevant qualifications for the development, production and trading of various radionuclide-drug conjugates such as 68Ga, 177Lu, 89Zr, 90Y in Mainland China.

- **Entered into Cooperative Framework Agreement on Nuclear and Radiation Safety Center**

  In November 2020, the Group and Nuclear and Radiation Safety Center of the Ministry of Ecology and Environment of the PRC ("Nuclear and Radiation Safety Center") entered into a cooperative framework agreement. The two parties share a common development strategy in radiation safety and environmental protection in use of nuclear technology, and will actively cooperate to build a strong partnership and achieve resource optimization by leveraging respective advantages. Nuclear and Radiation Safety Center is the only public welfare institution in China that specializes in nuclear safety and technical support for radiation environment supervision and management, which is responsible to provide a full scope of technical support for China's civil nuclear facilities and radiation environment supervision.

- **Formation of AuroRNA Biotech and Establishment of mRNA Technology R&D and Production Platform**

  In November 2020, the Group has further entered into strategic cooperative agreement and product licensing agreement with Belgium based eTheRNA, pursuant to which the Group and eTheRNA will set up a joint venture company AuroRNA Biotech in Mainland China to build an independent and integrated mRNA technology R&D and production platform to conduct R&D and production of mRNA technology. At the same time, AuroRNA Biotech will obtain the exclusive licenses of the world's innovative HPV-positive head and neck cancer products in Greater China Region, as well as the right of first negotiation for future products. Formation of AuroRNA Biotech and establishment of mRNA technology platform will further optimize the Group's strategic planning in tumor immunotherapy and infectious diseases treatment, and may create synergies with existing pipeline product.

- **Subscription for Equity Interest in BlackSwan**

  In November 2020, Sirtex, the Group's associate, and American based BlackSwan Vascular, Inc. ("BlackSwan") entered into a shares purchase agreement. Under the agreement, Sirtex will invest US$5 million in exchange for approximately 12.5% equity interests in BlackSwan and Sirtex will appoint an observer member to the board of directors. In addition, Sirtex has an option to purchase the remaining shares of BlackSwan at a consideration of no more than US$41.5 million in aggregate, within a certain period of time upon the submission of pre-market approval (PMA) application of BlackSwan's products in the United States. In addition, Sirtex's cooperation with BlackSwan may further enrich Sirtex's product portfolio and expand into new indications for the SIR-Spheres® Y-90, which is expected to create synergies for the Group's existing products and R&D pipeline.

Other than stated above, the Group did not have other material acquisition or disposal during this year.

INVESTOR RELATIONS

The Group has been committed to improving its corporate governance to ensure the long-term development. During the year, the Group published annual and interim reports, and other announcements and circulars on the websites of the Company and the Hong Kong Exchanges and Clearing Limited, and issued voluntary announcements, so as to disclose the latest business developments of the Group to shareholders and investors.

Meantime, although the Group was unable to carry out large-scale on-site visits due to the epidemic, it maintained active and close contact with investors through various channels, and introduced the Group's business and development to investors through diversified communication methods including roadshows organized by securities companies, large-scale telephone conferences and one-on-one meetings. It also released information on the latest business development through different media channels, with an aim to establish an open, two-way, transparent and sincere communication platform, so that investors can immediately understand the business status and prospects of the Group. During the year, the Group held five promotion events such as new product briefings, results presentations and corporate days, and participated in dozens of summits, forums, conferences and roadshows held by large investment banks and securities companies, which attracted hundreds of institutional investors and analysts. Through communication with investors, the Group hopes to listen to more valuable opinions and extensively collect feedback from investors by establishing an active and efficient information and communication mechanism, so as to further enhance its corporate governance.

The Group's investor relations management helps to establish a high-quality corporate image and convey the core of technological innovation. It has been highly recognized in the industry in many aspects. The Group won the awards of the "3rd New Fortune HK Listed Company with the Best IR (H Shares)" in March 2020, "Most Growth Technology Listed Company (最具成長科技類上市公司)" in November 2020 and 5th Golden Hong Kong Stock "Best Pharmaceutical and Medical Company" of 2020 (二零二零年度第五屆金港股「最佳醫藥及醫療公司」) in January 2021.

OUTLOOK AND FUTURE PROSPECTS

As the COVID-19 pandemic swept the world in 2020, the global economy has been hit hard. Benefiting from the effective control of the epidemic in China, the domestic pharmaceutical industry has forged ahead with a cumulative increase of 46% since the beginning of the year, making it one of the few industries to benefit from the epidemic. In order to better adapt to the epidemic and the new trend of domestic industry changes, the Group adheres to being driven by scientific and technological innovation, increasing investment in global innovative products and advanced technologies, so as to avoid the trend of low price competition of domestic homogenized drugs in the future. Implementing the strategy of "global expansion and dual-cycle operation", it is the target of the Group to consolidate its leadership among the industry participants with a strategic forward-looking vision of the world while establishing a firm foothold in the domestic market.

The gradually improved new RDC segment and another victory in radiopharmaceutical reserves

Given the fact that the homogeneous competition becomes increasingly tense and China's pharmaceutical industry has ushered in the decisive point of survival of the fittest since the development of the domestic pharmaceutical industry, the Group concentrates its attention on the innovative products and segments with high entry barriers that have not yet met clinical needs. In order to provide better medical solutions for patients around the world, the Group will continue to develop innovative products and advanced technologies while consolidating its advantageous areas.

In 2020, after SIR-Spheres® Y-90 resin microsphere, the Group continued to explore in the radionuclide pharmaceutical drugs. For the field of cancer diagnostics and treatment, the Group has reached strategic cooperation with Australia based Telix, Jiangsu Institute of Nuclear Medicine, Nuclear and Radiation Safety Center of the PRC and Puer Weiye, focusing on high-innovation, high-barrier RDC drugs, which is the Group's another major strategic deployment to keep exploring radioactive pharmaceuticals, so as to gradually improve the entire industry chain of radioactive pharmaceuticals. The Group currently has an innovative world-class radionuclide product, SIR-Spheres® Y-90 resin microspheres, and six innovative first-in-class radionuclide-drug conjugates introduced by the strategic cooperation with Telix, covering the diagnosis and treatment of liver cancer, prostate cancer, clear cell renal cell carcinoma and glioblastoma. The high barriers of radionuclide drugs are not only reflected in the difficulties of product research and development, but also in the acquisition of qualifications for the production and operation of RDC drugs. Through cooperation with outstanding enterprises and units in various fields such as research and development, production, sales and supervision, the industrial chain is gradually improving and the Group's comprehensive advantages in the field of radionuclide-drug conjugates have been consolidated. In the future, the Group will strive to build a world-leading platform for radionuclide-drug conjugates. Up to present, the Group possesses "Radioactive Pharmaceutical Production License", "Radioactive Pharmaceutical Trading License" and "Permit for Radiation Safety". It is expected that the Group will become the second Hong Kong listed company that is permitted to engage in radiopharmaceutical production, operation and development related businesses. RDC drugs are still in the early stage of development in China. According to Frost & Sullivan, entering a period of rapid growth, the compound annual growth rate of China's radiopharmaceutical industry is about 18.6%. It is estimated that the total domestic market will reach RMB10.6 billion in 2022. Both of the vast market space and comprehensive operating qualifications lay a solid foundation for the Group's sales of innovative first-in-class radioactive pharmaceutical. The Group is also expected to occupy a leading position in the RDC field in China.

Gradual appearance of comprehensive advantages under the in-depth layout in multi-pipelines and multi-platforms

2020 was a year full of turmoil and anxiety due to an epidemic. While the overall international economy took a hard hit, the pharmaceutical industry has been pushed to the position surrounded by challenges and opportunities and advanced in twists and turns under the effective domestic control of the epidemic. On one hand, the overall performance of medicines was flat due to the impact of centralized procurement while medical devices were under dual pressure from the epidemic and centralized procurement. On the other hand, the performance of immunization-related medical products as well as consumer medical equipment and services continued turning for the better during the epidemic. In other words, only the coordination of multi-fields and the expansion of the scope of business collaboration can promote the steady development of an innovative collaboration model in a turbulent competitive environment.

After years of dedicating itself in exploring market shares, the Group has successfully transformed from a pharmaceutical ingredients factory to a technologically innovative international pharmaceutical company integrating pharmaceutical products and advanced medical devices. While retaining the businesses of pharmaceutical ingredients and core pharmaceutical preparations, the innovation pipeline focuses on the four core therapeutic areas of anti-tumor, cerebro-cardiovascular, anti-virus and anti-infection and respiratory and ENT. The Group prospectively implements a global innovation-driven deployment in cutting-edge technologies including precision interventional diagnosis and treatment, radionuclide-drug conjugates therapy and immunity therapy through obtaining a series of innovative pharmaceutical products that are globally exclusive with broad market prospects from the United States, Australia, Europe, Canada and other countries with first-class pharmaceutical capabilities by means of "self-development" and "global expansion". For the technological innovation, the Group has four technology R&D platforms and five R&D centers around the world. Expanding global innovative products and international cutting-edge technologies in four core areas, the Group's comprehensive strength is becoming much more complete. In the future, the Group will give full play to its own comprehensive advantages and continuously develop technical barrier products and branded pharmaceutical products. In order to establish its market leadership, the Group will keep enriching its innovative products to consolidate and strengthen the existing fields of comparative advantages by adhering to the dual-wheel driving development strategy of independent R&D and domestic and international investment and M&A.

Continuous extension of the innovative products pipeline and the harvest period of the innovative products

Compared with developed countries, the concentration of the domestic pharmaceutical industry is relatively low. Apart from the few exclusive products with high added-value and high innovation, most of the pharmaceutical companies are mainly engaged in generic drugs, leading a serious homogeneity of the pharmaceutical products. In addition, the national centralized procurement of drugs becomes a normalized operation mode, and the competitive landscape in the domestic pharmaceutical industry has further intensified. Facing such increasingly fierce industry environment, the continuous reserve of highly innovative and high-barrier products with global competitiveness becomes the hardcore power of an enterprise's sustainable development.

In recent years, the Group has orderly deployed the technological innovation achievements and continuously strengthened the external M&A to complete the rapid development. By making full use of the opportunities from integration of the domestic pharmaceutical industry and increased concentration, the depth and breadth of external M&A as well as the acquisition of high-quality resources shall be accelerated, so that the outreach growth may be achieved. In the field of cerebro-cardiovascular precision interventional diagnosis and treatment, two drug-coating balloon products, RESTORE and APERTO, have successfully completed commercialization. The Group will expand the market coverage of the two products through multiple channels and directions. The two in vitro diagnostic products, namely NOVASIGHT Hybrid (intravascular ultrasound/optical coherence tomography system) and FORESIGHT ICE (3D intracardiac echocardiography), have broad application prospects in terms of coronary artery imaging and intracavity intervention surgery. With reference of mature interventional technology and stent of coronary and peripheral, LONG (neurological intervention stent retriever product) can extend a patient's treatment window from 6 hours to 24 hours of drug treatment, becoming a new clinical method for treating cerebral stroke. The Group will accelerate the development of vascular imaging diagnostics and neurological interventional products, and further expand its deployment in terms of structural cardiac disease, electrophysiology and heart failure, with a goal of gradually building an innovative, high-barrier and sustainable platform for cerebro-cardiovascular precision interventional diagnosis and treatment.

The Group has been dedicated to the research and development of anti-tumor. It has 12 innovative pharmaceutical products globally, covering 9 major solid tumors (including hepatocellular carcinoma, colorectal cancer, ccRCC, prostate cancer, glioblastoma, metastatic melanoma, triple negative breast cancer, squamous cell carcinoma and HPV-positive head and neck cancer). The variety and quantity of the Group's product pipeline are at the leading level in this industry. SIR-Spheres® Y-90 resin microsphere, an innovative product in the field of anti-tumor, is a tumor interventional nuclide product with world-leading technology and the only radioactive microspheres approved by the FDA. It has been given to over 100,000 people in over 50 countries and regions around the world. With its remarkable clinical efficacy, SIR-Spheres® Y-90 resin microsphere has been covered by guidelines and recommended for treatment in several counties around the world with clear clinical demands delineated. The launch of such global innovative product has been formally accepted by the NMPA last year, which is expected to bring a new treatment resolution to Chinese liver cancer patients soon. It was also recommended by National Institute for Health and Care Excellence (NICE) in March 2021 and approved by the FDA of United States to conduct clinical trials on primary liver cancer. In the field of anti-tumor, the new drug application of TLX591-CDx, a diagnostic RDC drug for prostate cancer, has been accepted by the FDA in the United States. TLX250CDx, a diagnostic product for clear cell renal cell carcinoma, has been granted breakthrough therapy designation by the FDA in the United States. TLX101, a diagnostic and treatment product for glioblastoma, has been granted orphan drug designation by the FDA in the United States. Overseas clinical studies of a variety of products are advancing simultaneously. In the field of tumor immunotherapy, the clinical trial of TAVO™, the world's innovative genetic immunotherapy, in combination with anti-PD-1 checkpoint inhibitor KEYTRUDA® for the treatment of advanced metastatic melanoma has made a breakthrough. It is the Group's expectation to submit an application for accelerated approval by the FDA in the United States based on such clinical trial results. The application of mRNA platform through investing in the Belguim based eTheRNA is similar to the TAVO™ platform of United States based OncoSec in terms of high expandability. In addition to the availability of extensive deployment in tumor immunotherapy, the two platforms are also able to carry out rapid product development in the vaccines for infectious diseases and orphan drugs.

In the field of anti-infection, the two new sepsis drugs function from antagonizing the body's excessive immune response and antagonizing various type of pathogen-associated molecule, which will result in a good synergistic effect in the treatment of sepsis. Of which, since the STC3141 is related to ARDS caused by coronavirus disease due to its mechanism, in May 2020, the Group was approved to conduct a phase II clinical study for ARDS caused by coronavirus disease and a phase Ib clinical study for sepsis in Australia. In the field of respiratory and ENT, the Group has also reserved innovative products, including the treatment of dry eye disease, pterygium and allergic rhinitis, to further enhance its core advantages and its competitiveness that differentiates it from other market players.

Financial Resources and Liquidity

As at 31 December 2020, the Group had current assets of HK$5,318.96 million (31 December 2019: HK$3,816.32 million) and current liabilities of HK$4,302.93 million (31 December 2019: HK$3,589.56 million). The current ratio was 1.24 at 31 December 2020 as compared with 1.06 at 31 December 2019.

The Group's cash and bank balances as at 31 December 2020 amounted to HK$1,836.70 million (31 December 2019: HK$1,059.27 million), of which approximately 7.0% were denominated in Hong Kong Dollars, United States Dollars, Australian Dollars, Euro and 93.0% in Renminbi.

As at 31 December 2020, the Group had outstanding bank loans of approximately HK$2,345.69 million (31 December 2019: HK$2,010.16 million) were granted by banks in the Mainland China and Hong Kong, China. All bank loans were denominated in RMB and HK$. The interest rates charged by banks ranged from 2.60% to 6.89% (31 December 2019: 2.92% to 6.89%) per annum, in which approximately HK$1,199.84 million bank loans were charged at fixed interest rates. Certain bank loans were pledged by assets of the Group with a net book value of HK$86.22 million (31 December 2019: HK$287.89 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was reduced to approximately 20.9% as at 31 December 2020 as compared with approximately 24.0% as at 31 December 2019.

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

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2020, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Updates on Significant Matters

With reference to the disclosure in the 2016, 2017, 2018 and 2019 annual report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "Tianjin Jingming"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2020, the court has concluded 51 cases, and Tianjin Jingming has appealed 4 cases against the judgement of first instance with aggregate compensation of approximately RMB3.15 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB24.90 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and Grand Pharm (China) had claimed the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgment by the court, the original shareholders of Tianjin Jingming should compensate to us approximately RMB8.09 million as the existing compensate and liquidated damages at the point of raising litigation. Grand Pharm (China) also has the right to raise litigation claiming the original shareholders of the Tianjin Jingming for the indemnification related to such product quality incident made by Tianjin Jingming in the future, the Directors therefore are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and after the first trial, second trial and retrial from the court, the court granted the final judgement in December 2020. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB11.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. Up to the date of this report, the Group has followed the judgement from the court and get back the RMB10 million deposited in the bank account jointly controlled by the Group and the vendors.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Market Risks

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

Foreign Exchange Rates Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2020, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

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

Liquidity Risk

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

Operational Risk

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

Investment Risk

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

Economic Environment

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

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

Environmental Policies

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

Compliance with Relevant Laws and Regulations

Save as disclosed above, during the year ended 31 December 2020, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

Key Relationships

(i) Employees

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

(ii) Suppliers

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

(iii) Customers

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group employed about 8,722 staff and workers in Mainland China and overseas (31 December 2019: about 8,485). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Issue of new shares and use of proceeds

On 1 August 2020, the Company entered into a placing agreement with China International Capital Corporation Hong Kong Securities Limited ("Placing Agent"), pursuant to which the Placing Agent has conditionally agreed to act as agent for the Company, to place, or procure the placing of, on a best effort basis, up to a total of 172,000,000 new shares at the placing price of HK$5.90 per placing share to not less than six placees. The closing price was HK$7.34 per share on 31 July 2020 (being the last trading day of the shares immediately preceding the date of signing of the placing agreement. On 10 August 2020, the Company completed the allotment and issuance of 172,000,000 ordinary shares with nominal value of HK$1.72 million. After deducting the placing commission and the related fees and expenses, the aggregate net proceeds were approximately HK$1,013.60 million, represents the net price per placing share is approximately HK$5.89, and are expected to in the research and development projects (including but not limited to its existing and future domestic and overseas projects on research and development of pharmaceutical products), expansion of our research team and investment in technology. For the year ended 31 December 2020, there were approximately HK$613.11 million out of the proceeds applied to the usage stated above. It is expected that the remaining proceeds will be fully utilized in 2021.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2020, the Group as lessor had operating lease commitments of HK$0.12 million (2019: HK$0.52 million).

As at 31 December 2020, the Group had capital commitments of HK$108.70 million (2019: HK$7.65 million).

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

EVENTS AFTER THE ACCOUNTING PERIOD

The board lot size for trading in the shares of the Company on the Stock Exchange changed from 4,000 Shares to 500 Shares with effect from 9:00 a.m. on Friday, 5 February 2021. The purpose is to lower the threshold for investors to purchase the Shares, thus facilitating the trading and improving the liquidity of the Shares, which will enable the Company to attract more investors and therefore broaden the shareholders' base of the Company. For further details please refer to the announcement of the Company dated 15 January 2021.

On 8 February 2021, the Company entered into a share purchase agreement with East Ocean Capital (Hong Kong) Limited, pursuant to which the Company acquired approximately 50.13% of the entire issued share capital of the East Ocean Medical (Hong Kong) Company Limited at a consideration of US$12,000,000. For further details please refer to the announcement of the Company dated 8 February 2021.

CONTINGENT LIABILITIES

As at 31 December 2020, the Directors were not aware of any material contingent liabilities.

APPRECIATION

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

Liu Chengwei
Chairman

Hong Kong, 17 March 2021

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange during the year ended 31 December 2020:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2020.

BOARD OF DIRECTORS

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

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

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

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

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

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

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

AUDIT COMMITTEE

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

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

The audit committee held three meetings during the year ended 31 December 2020 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

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

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

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2020 are set out in note 15 to the consolidated financial statements.

NOMINATION COMMITTEE

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

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

The nomination committee held a meeting in 2020 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

ATTENDANCE RECORD AT MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2020 are set out as below:

	Meetings Attended/Held				
Directors	Annual General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Liu Chengwei	1/1	27/27	N/A	1/1	N/A
Mr. Hu Bo	1/1	27/27	N/A	N/A	N/A
Dr. Shao Yan	1/1	27/27	N/A	N/A	1/1
Dr. Niu Zhanqi	1/1	27/27	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	1/1	27/27	3/3	1/1	1/1
Mr. Hu Yebi	1/1	27/27	3/3	1/1	1/1
Dr. Pei Geng	1/1	27/27	3/3	N/A	N/A

AUDITORS' REMUNERATION

During the year, the auditors performed the work of statutory audit for the year of 2020.

Audit fees for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$3,400,000.

FINANCIAL REPORTING

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

During the year ended 31 December 2020, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review in the year ended 31 December 2020 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

The work performed by the Board on corporate governance functions during the year ended 31 December 2020 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

This report is prepared by the Company in accordance with the Environment, Social and Governance Reporting Guidelines as set out in Appendix 27 of the Listing Rules. This report covers entities with substantial effect to the financial and actual operational process, mainly being the companies and production plants located in Wuhan City, Hubei Province, the PRC. Save as otherwise indicated, the data and contents in this report are all in relation to the period from 1 January 2020 to 31 December 2020.

THE BOARD'S ESG COMMITMENT

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is committed to determining the most effective way to integrate ESG considerations into its structure and committees. The Group also evaluates and monitors ESG-related risks and ensures these risks are thoroughly considered in the process of decision making and embedded into the management of risk and opportunities across the Group.

The Group strives to achieve a high level of public transparency by regularly engaging stakeholders and disclosing information in a timely and accurate manner. The Group maintains regular exchanges and dialogues with peers, investors and other stakeholders to share the updates of ESG-related risks and regulatory requirements etc. The Group also tracks existing and emerging regulations to ensure that its ESG policies, processes and disclosures meet expectations.

Legal compliance is an essential pillar for sound corporate governance and underpins sustainable operations. The Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues during the Reporting Period, and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

THE GROUP'S ESG APPROACH

The Board and senior management of the Group are involved in the materiality assessment in identifying material ESG issues that impact the Group's business operation. The management of the Group actively participates in the optimisation of existing operation plans, fully supports various resources and strives to integrate ESG matters into the daily operation and management of the enterprise.

The Group has a vision for its operation practices and the provision of quality products and excellent services. The Group not only abides by strict standards and requirements to ensure the highest quality of its products, but also sticks to develop innovative products to meet the global healthcare demand and improve the quality of life. The Group is committed to becoming a pioneer in core technology, increasing investment in research and development, recruiting talents around the world, maintaining innovation in various business areas, complying with relevant rules and regulations, and continuously improving the quality management system, so as to achieve stable product quality to meet customer requirements.

The Group is well aware that the development, promotion and sale of pharmaceutical products are related to public health. Therefore, the Group's will put the products safety and service quality, including the development, production, testing and after-sales of products, in an important position when setting ESG management objectives. At the same time, the Group will focus on more safe, more effective or more cost-effective innovative drugs to meet the actual needs of patients and maximise social benefits taking into account the unmet medical demands of the international pharmaceutical market. The Group will consider the effect of operational activities on the environment in order to build a green, harmonious and sustainable society with all stakeholders.

COMMUNICATIONS WITH STAKEHOLDERS

Key stakeholders of the Group include shareholders and investors, government and regulatory authorities, customers, suppliers, employees and communities. The Group strives to communicate with the stakeholders from time to time to understand their opinions and expectations, and assist the Group to continuously improve and enhance the comprehensive management ability and level of the enterprise through effective and diversified communication channels so as to satisfy the needs of the stakeholders. The Group has identified the stakeholders as follows:

Stakeholders	Shared objectives	Communication and feedback channels
Shareholders and investors	— Steady growth in return on investments — Asset preservation and appreciation — Explore new markets and opportunities — Prevent operational risks — Safeguard information rights	— General meetings — Annual report and announcement — Investor meetings — Press release
Government and regulatory authorities	— Strict compliance with relevant laws and regulations — Safe production — Pay tax in accordance with law	— Email and telephone communication — Tax payment — Implementation of national policies
Customers	— Provide premium products — Product safety — Provide sustainable innovative products — Create win-win situation — Offer refined customer service and communication channels	— Corporate website — Technical training and seminar — Product release conference — On-site visit
Suppliers	— Product safety — Fair and open procurement — Win-win cooperation	— Evaluation on suppliers — On-site inspection — Daily communication
Employees	— Protect employees' benefits and rights — Promote occupational health and safety — Provide equal employment opportunities — Build a platform for growth and diversified development — Work-life balance	— Staff training — Staff care activities — Staff interview — Internal email
Community	— Facilitate employment — Enhance local economic development — Strengthen environmental protection and reduce pollution on environment	— Provide employment opportunities — Promote local economic development — Improve infrastructure in locality — Poverty alleviation — Voluntary services

ENVIRONMENTAL POLICY AND PERFORMANCE

Environmental protection responsibility is a must to an enterprise, which shall ensure the sustainability of the environment and resources through committed efforts during its management and operation process. In this connection, the Group aimed to develop its environmental management system and improve environment-related policies, adopt long-effective environmental management and supervisory means, adhere to the corporate environmental protection principles of placing environmental friendliness as the first priority, taking precaution as the main measure, adopting comprehensive rectification and management and implementing energy-saving and emission reduction in the production process in order to practically assume our corporate social responsibility and achieve the best environmental performance.

Abiding by the rules and regulations as stipulated in Law of the People's Republic of China on Environmental Protection, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, Law of the People's Republic of China on Prevention and Control of Soil Pollution and Emission Standard of Air Pollutants for Pharmaceutical Industry, the Group upheld the concept of ensuring effective governance of pollutants and compliance with the standards of pollutant emission and preventing the occurrence of environmental pollution accidents, and adhered to the corporate environmental protection principles of placing environmental friendliness as the first priority, taking precaution as the main measure, adopting comprehensive rectification and management, and implementing energy-saving and emission reduction in the production process, in order to ensure the Group's production complying with laws and regulations and practically assume our corporate social responsibility. The Group is committed to becoming a pharmaceutical enterprise receiving respect from doctors and patients in the PRC. During the year, the Group was not aware of any major incidents relating to environmental protection and was not punished by competent environmental protection department. The Group continued to strengthen the control of the source of pollutants, optimised the process of end treatment and reduced pollutant emissions of the enterprise. The Group increased its investment to constantly improve, renovate and upgrade the enterprise protection equipment pursuant to new standards and requirements on safety and environmental protection to ensure wastewater, waste gas and waste discharge are up to standard.

(1) Emission

To advance our governance on environmental protection, the Group has established a safety and environmental protection management organisation, which comprises 35 designated environmental protection management personnel from the Group, industrial park and members. For coping with various potential environmental incidents more effectively, each member has developed its respective emergency proposal and on-site handling plan for unexpected environmental incidents with necessary emergency supplies equipped, and conducted regular emergency drills to ensure ordered emergency work.

The Group has established a systematic environmental governance and quarterly inspection system and formulated the Regulations on the Supervision and Inspection of the Operation of Environmental Protection Facilities. The Group delegates professionals to conduct on-site inspection on the operation of environmental protection facilities of the members every year, so as to ensure the stable operation of environmental protection facilities of the members and meet the emission standards.

— Waste gas emission management

In view of the three main emission sources of waste gas generated in the operation of the Group: boiler flue gas, waste gas from sewage treatment and process waste gas, we standardise our own operation management to reduce air pollutant emission and other problems. The Group delegates environmental protection technicians to inspect and monitor the operation indicators of pollutant treatment facilities of the members quarterly so as to effectively manage and control the risks relating to treatment process and emission; it studies the national environmental policies, industrial policies and environmental accident cases of other enterprises, and timely release internal warning information. At the same time, the Group strictly implements waste gas management and requires enterprises producing waste gas pollutants to engage a third party to conduct pollutant inspection so as to strictly control the emission of waste gas pollutants.

— Wastewater discharge management

The Group strictly implements and monitors the sewage treatment to ensure that the sewage of each member meets the discharge standard, and strictly requires each member to do properly in the source control, classified collection and quality control of sewage. Each member adopts wastewater collection measures such as "separation of clean water and sewage, separation of rain and sewage". Meanwhile, the sewage outlets of key enterprises are installed with on-line monitoring equipment to detect chemical oxygen demand, ammonia nitrogen, total nitrogen and total phosphorus and others with relevant government departments to monitor pollutant emissions.

The Group has also established internal and external expert teams to monitor the operation of environmental protection facilities of key enterprises in the whole process and established an alert mechanism for the operation parameters of wastewater treatment facilities. It timely manages the operation of wastewater treatment facilities when the operation parameters of such facilities of the members deviate, and ensures the stability and effectiveness of wastewater treatment facilities of the members by adjusting technical parameters, etc.

— **Solid waste discharge management**

The Group strictly implements the relevant requirements of solid waste treatment. For the waste generated by each member, they carry out classified collection and treatment according to the requirements of environmental impact assessment. For hazardous waste, each member has built a standard temporary storage of hazardous waste and achieved the three prevention standards of anti-leakage, anti-loss and anti-proliferation. The hazardous waste generated is collected and temporarily stored with labels. There are records for hazardous waste generation. A hazardous waste treatment contract is signed with competent authorities and handed over to then for treatment. The transfer processing system for hazardous waste is carried out. General waste is collected by enterprises and handed over to relevant authorities for treatment according to the requirements of environmental impact assessment.

In addition, the Group is more active in promoting the recovery and comprehensive utilisation of solid waste, such as processing waste plastics into plastic particles, or applying waste activated carbon to the front-end production process in the production process.

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

The resources mainly used by the Group in the production process include water, electricity and coal, etc. In accordance with principles and policies, regulations and standards of the national, local and industry competent authorities on energy conservation, such as Law of the People's Republic of China on Energy Conservation and Law of the People's Republic of China on Clean production, the Group has formulated an internal management guideline to effectively and reasonably allocate and raise the utilisation of energy and resources, reduce waste of available energy and resources, and lower our operating cost at the same time. Specific measures implemented in 2020 include:

— By installing frequency converter to adjust the power of facilities, replacing energy-saving equipment and other energy saving measures, the annual energy consumption reduced by 1 million kWh throughout the year;

— By optimising the sewage treatment process and promoting the reuse of reclaimed water after sewage treatment, water consumption reduced by 0.1 million tons throughout the year;

— Strengthen the inspection of steam system in Fuchi park, reduce the running, dropping, leaking and release of steam, introduce new technology and new equipment to improve the energy utilisation efficiency of steam, make full use of the capacity of existing coal-fired boilers, reduce the operation rate of existing gas-fired boilers as far as possible and reduce the consumption of natural gas so as to reduce the production cost;

— For gas-fired boilers of pharmaceutical enterprises, waste heat utilisation and other means are required to reduce the unit consumption of natural gas.

The summary below are the key performance indicators of 2020 for twelve main members of the Group (which contribute approximately 68.3% revenue of the Group):

	Item	Unit	Approximate
		Energy Consumption	
Resource usage	Electricity	(kWh per annum)	154,970,000
	Coal	(tons per annum)	56,000
	Natural Gas	(square meters per annum)	3,679,000
	Water	(tons per annum)	2,455,000
	Steam (purchased from other suppliers)	(tons per annum)	45,000
	Packing Materials-plastics	(tons per annum)	1,062
		Gas Emissions	
Emissions	Particulates	(tons per annum)	36
	Nitrogen Oxides	(tons per annum)	37
	Sulphur Dioxide	(tons per annum)	112
	Volatile Organic Compounds (VOC)	(tons per annum)	207
		Sewage	
	Total Sewage	(tons per annum)	1,146,600
	Chemical Oxygen Demand	(tons per annum)	301
	Ammonia Nitrogen	(tons per annum)	41
		Wastes	
	Total Hazardous Wastes	(tons per annum)	825
	Total Non-hazardous Wastes	(tons per annum)	1922
Greenhouse gas emissions	Direct	(Tonnes CO_2 equivalent per annum)	156,000
	Indirect	(Tonnes CO_2 equivalent per annum)	95,000

Note: Only the statistics of emissions applicable to the Group is listed. Direct greenhouse gas emissions from operations that are controlled by the Group mainly generated from the consumption of natural gas and coal fuel for generating steam. Indirect greenhouse gas emissions from operations mainly resulted from the electricity purchased.

(3) Climate Change

The impacts and risks of climate change on the sustainable development of global enterprises bring various challenges to the operation of enterprises, which are issues for them to address to.

Global warming will affect the harvest of crops, which may lead to the price rise of raw materials and supply chain shortage of a small number of fermentation pharmaceutical enterprises of the Group, including corn steep liquor, soybean meal, rice and other biological fermentation raw materials. This will bring certain risks to the supply chain and the production management of fermentation enterprises in the future. In order to reduce the risk of single raw materials because of the influence of climate and geographical factors, the Group is actively considering to expand the source of raw material suppliers in different places to ensure the stability of operation and supply in the future.

In addition, global climate change will melt glaciers and affect the storage of fresh water. At the same time, climate change will change the rainfall pattern, which may lead to the decrease of rainfall and the drying up of groundwater in many areas. The frequency and intensity of drought and flood disasters will increase. In view of this, the Group is actively taking active measures in its members to make largest efforts in the preservation of water resources, such as optimising the production process, increasing the recycling of water and reducing water consumption in the production year by year.

On the other hand, we are actively considering a comprehensive analysis of the effect of climate change on the future development of enterprises through scientific methodology so as to deeply understand the actual influence of climate change on the industry. We believe that this will help us to strengthen our control of climate change risks and formulate strategies to address climate change in the long term, medium term and short term.

EMPLOYMENT AND LABOUR PRACTICES

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

(1) Employee's Rights

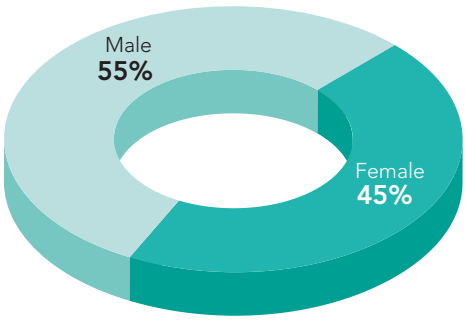
The Group has stringently implemented relevant laws and regulations such as the Labor Law of the People's Republic of China, and Labor Contract Law of the People's Republic of China, and formulated the human resources management system to proactively safeguard the legal rights of employees.

The Group promotes a cultural atmosphere of synergistic cooperation, advocates equality between people, and adheres to the principle of fairness and justice. We are against any form of discrimination. We have adopted the same starting salary for employees of different gender, complied with the same minimum wage standard, forbid any sexual discrimination during the employment and promotion processes, and applied equal pay for equal work. The wages of the Group's almost all existing employees are higher than the minimum wage standard of their location, and are in compliance with the local labor rules and policies. The Group will, in accordance with requirements of the national law at the time of recruiting employees, stringently examine the identities and ages of applicants, and will not recruit employees under the age of 18. The Group is not aware of any differentiation in salary packages in relation to gender, age and nationality during recruitment and examination, selection, employment and deployment of applicants.

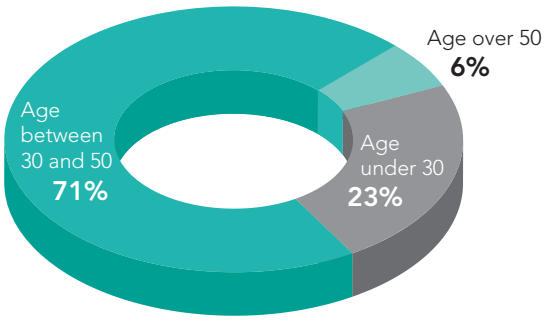
For employee's welfares, the Group abides by the local labor rules, pays for statutory benefits for all formal staff, and offers leaves as required by the law; it provides holidays and benefits in accordance with requirements of the national and local law for all such female employees during the "three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

As of 31 December 2020, the Group had 8,722 employees. The breakdown of employees by gender and age group during the reporting period is as follows:

By gender



By age group



Except for three employees who are domiciled in Australia, the rest of the employees are domiciled in the PRC. The employee turnover rate in the PRC is approximately 17.9%.

(2) Employee's Safety

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

The Group will carry out comprehensive trouble hidden investigation and rectification of various production facilities, auxiliary facilities and public areas to eliminate safety vulnerability and provide a strong guarantee for on-site security from time to time. In 2020, neither major safety incidents and serious fire accidents nor work-related fatal incidents of members of the Group were happened. The total number of working days lost due to work injury was 8,707 days.

(3) Employee's Training

In recent years, the Group promoted strategic transformation comprehensively, accelerated innovation independently, expanded product markets continuously and developed various business segments. The Group continues to improve the standardisation and professionalism and increase the strength of research and development training. The direction of the talent training project is to be "Professionalism, Young and internationalisation". In 2020, the Group issued work guidance comprising three aspects, namely compliance, essential knowledge and risk prevention. The Group focuses on functions such as production, quality, safety, engineering equipment and procurement to fulfill key functions/positions. It strengthens the job-related learning and knowledge through defining job responsibilities, training, professional sharing, examination, spot check and competition to improve the skills. It strives to satisfy development needs on the basis of meeting the enterprise's compliance requirements to fulfill the quality assurance, efficiency and professional improvement and internationalisation. The Group also encourages employees to carry out construction, innovation/technology projects and gives rewards for special projects. It also revises and improves the on-the-job training system and gives special subsidies to employees who have obtained professional qualification or certificate (vocational certificate).

Grand Pharmaceutical Vocational and Technical School continues to focus on the skills and essential knowledge of employees and takes skill improvement as the training goal. It carries out multiple training projects such as production, quality, procurement, environmental protection, finance and human resources to strengthen the basic knowledge of laws and regulations and pharmacy. The corporation needs to prepare the teaching and promotion of job-related skills and conduct professional exchange and share the knowledge. In 2020, under the normalised situation of the pandemic prevention and control, through transforming external training into internal training, it integrates internal corporate resources, further promotes personnel training and nurture. Among the trainees, the number of male employees and female employees accounted for 57% and 43%, and that of senior managers and middle managers accounted for 12% and 26%, respectively. The average training hours of male employees and female employees were 84 hours and 71 hours, and the average training hours of each senior manager and middle manager were 73 hours and 89 hours, respectively.

COMMUNITY

During the outbreak of the COVID-19 pandemic in 2020, the Group overcame all kinds of difficulties, supported the frontline prevention work, actively performed its corporate social responsibility and gratefully rewarded the society. The Group has donated more than RMB4 million of materials for epidemic prevention, contributing to the fight for the pandemic.

As early as January 2020 when the outbreak of the pandemic was announced, the Group had donated more than RMB1.5 million of antiviral drugs to Wuhan Red Cross Foundation and Qiaokou District government. In order to ensure that the donated drugs were sent to the front line for fighting pandemic in time, the Company managed to distribute 60,000 boxes of antiviral oral liquid to Wuhan within 24 hours. Enterprises from other provinces also overcame many difficulties such as tight supply of goods, limited material transportation and traffic during the Spring Festival, adjusted the Company's drug production, organised the supply of goods and coordinated logistics companies and other related matters. They donated more than RMB1 million of clinically-needed drugs to Wuhan Red Cross Foundation and epidemic prevention and control headquarters, and donated more than 500 kg of disinfectant alcohol to frontline hospitals and actively allocate 8 tons of disinfectant to support the local government.

In addition, after learning about the lack of anti-epidemic supplies in domestic hospitals, the Group imported a medical device industry platform to urgently deploy a series of tasks such as procurement, transportation, customs declaration and delivery, in order to make full use of its relationship with overseas customers and imported and exported trading resources. Frontline anti-epidemic medical staff was donated with over 16,000 medical masks and other anti-epidemic supplies without compensation, which were procured from overseas.

In addition to actively fighting the epidemic, the Group also made contributions to improving the living conditions and living standards of disadvantaged groups in the society in line with social needs. The Group has made donations to Xi'an Red Cross, regional governments and charitable organisations with a total of donated cash and medicines amounting to RMB628,500. Shanghai Xudong Haipu Pharmaceutical Co., Ltd. raised more than 200 pieces of clothes. After sorting and classifying based on individual's height, weight and age, the clothes would be donated to children in Liangshan, Sichuan across 2,000 kilometers through the JQCSR (金橋企業社會責任促進會).

OPERATION PRACTICE

(1) Supply Chain Management

The majority of the Group's suppliers are located in the PRC and only less than 1% of them are from overseas. The Group has formulated a series of procurement management system and procurement control procedure, and has strictly selected suppliers and monitored the procurement process in accordance with the Drug Administration Law of the People's Republic of China and Good Manufacturing Practice. In selecting suppliers, a due diligence will be performed. The Group may visit the production plants if necessary and investigate the credit performance as well as the company's nature and background. The samples provided are required to pass the testing and trial production before such suppliers could become the Group's qualified suppliers. Procurement staffs have also conducted regular visits to suppliers to maintain close liaison and good cooperation relations with them. Meanwhile, the quality notices made by suppliers have been regularly monitored to ensure all of the raw materials used by the Group are in compliance with the standard requirements and ready for use.

Currently, the global epidemic situation is still uncertain. The Group has strengthened its mid- and long-term supply chain construction in supply chain management, such as strategic supplier management, localisation of imported materials, supplier sourcing, supplier dynamic management, upstream and downstream special research, etc. to ensure the stability and continuous supply of the procurement supply chain system.

(2) Product Liability

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

Drug quality correlates with the life safety of patients, and even the lifespan of the enterprise. The Group introduces the concept of risk management in the whole process of drug production and promotes the quality culture of maximising the interests of patients, which requires high standard and high quality of products and reduces product errors during production, so as to lower the risk in terms of product quality during production. A system for product return and exchange analysis has been formulated with relevant requirements such as storage and logistics management of drugs, automatic temperature and humidity monitoring system. Furthermore, modern information technology is used in the collection of information, adverse reactions, consultations and complaints of drugs, and the information will be analysed for the continuous improvement of drug quality to ensure the medicines is safe, effective, uniform and stable in order to enhance the patients' confidence in products of the Group.

(3) Anti-corruption

The Group, committed to pursuing operation in good faith, constantly enhances internal control and monitoring mechanism within the enterprise, and stringently observes the rule on fair competition. It organised the employees to study the laws and regulations against commercial bribery and other unfair competition. Employees are required to strictly comply with provisions in relation to prohibition of commercial bribery acts under the Law Against Unfair Competition of the People's Republic of China, Criminal Law and Companies Ordinances, and all of the relevant management rules on integrity and self-discipline as stipulated by the Company. The Group is firmly against commercial bribery, bribery and receiving gifts arising from other improper commercial acts, and establishes a management system and measures on capital management to prevent money laundering. The Company will promptly denounce and report to the relevant department for suspected personnel. In 2020, the Group and its employees were not involved in any corruption litigation.

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 22 and 20 to the consolidated financial statements respectively.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 is set out in the section "Management Discussion and Analysis" on pages 25 to 39 of this annual report.

Description of principal risks and uncertainties that may be faced by the Group can be found in the section "Management Discussion and Analysis — Principal Risks and Uncertainties" on pages 44 to 46 of this annual report.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the section "Management Discussion and Analysis — Financial Resources and Liquidity" on page 43 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which may have a significant impact on the Group are set out in the section "Management Discussion and Analysis — Environmental Policies" and "Management Discussion and Analysis — Compliance with Relevant Laws and Regulations" separately on page 46 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2020 and the state of affairs of the Group at that date are set out on pages 87 to 196.

DIVIDEND POLICY

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

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

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

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

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

iv. The Group's liquidity position;

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

vi. Other factors that the Board deems relevant.

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

DIVIDEND

The Board recommends the payment of final dividend of approximately HK$390,450,000 at 11 HK cents per share (2019: HK$324,250,000 at 9.6 HK cents per share) for the year ended 31 December 2020. No interim dividend was declared during the year (2019: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 40 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2020 are set out in notes 22 and 20 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Particulars of bank borrowings of the Group during the year are set out in note 32 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

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

Pursuant to bye-law 87(1), Mr. Liu Chengwei, Mr. Hu Bo and Mr. Hu Yebi will retire from office at the forthcoming annual general meeting. Mr. Hu Yebi, being eligible, offer himself for re-election of the forthcoming annual general meeting. Mr. Liu Chengwei and Mr. Hu Bo will not offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

COMPETING INTEREST

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

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2020, the related party transactions entered by the Group are all disclosed note 41 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 41 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2020, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

(1) On 30 June 2020, Grand Pharm (China) has entered into an agreement (the "Huadong Medicine Supply Agreement") with Huadong Medicine. Pursuant to the Huadong Medicine Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the Huadong Medicine Supply Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB160.0 million, RMB165.0 million and RMB169.0 million respectively (the "Huadong Medicine Supply Caps"). In 2020, the transaction amount under Huadong Medicine Supply Agreement is approximately RMB103.7 million.

(2) On 30 June 2020, Grand Pharm (China) has entered into an agreement (the "China Grand Supply Agreement") with China Grand. Pursuant to the China Grand Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to China Grand or its related companies and the maximum annual amount of products to be sold by the Group to China Grand for each of the periods commencing from the date where the terms of the China Grand Supply Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB26.0 million, RMB27.0 million and RMB28.0 million respectively (the "China Grand Supply Caps"). In 2020, the transaction amount under China Grand Supply Agreement is approximately RMB2.6 million.

(3) On 30 June 2020, Grand Pharm (China) entered into the purchase agreement (the "Baoding Jiufu Purchase Agreement") with Baoding Jiufu Biochemical Co., Ltd (the "Baoding Jiufu"). Pursuant to the Baoding Jiufu Purchase Agreement, Grand Pharm (China) or its related companies shall purchase raw materials from Baoding Jiufu or its related companies for the production of amino acid products and other pharmaceutical products. The maximum annual amount of products to be purchased by the Group from Baoding Jiufu for each of the periods commencing from the date where the terms of the Baoding Jiufu Purchase Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB41 million, RMB43 million and RMB45 million respectively (the "Baoding Jiufu Purchase Caps"). In 2020, the transaction amount under Baoding Jiufu Purchase Agreement is approximately RMB18.0 million.

(4) On 30 June 2020, Wuhan Kernel Bio-Tech Co., Ltd. (an indirect non-wholly owned subsidiary of the Company) (the "Wuhan Kernel") entered into the sub-contracting agreement (the "Baoding Jiufu Sub-Contracting Agreement") with Baoding Jiufu. Pursuant to the Baoding Jiufu Sub-Contracting Agreement, Wuhan Kernel or its related companies shall engage Baoding Jiufu for the provision of processing services for the production of antibiotics which can be applied in animal feeds. The maximum annual amount of products to be subcontracted by the Wuhan Kernel to Baoding Jiufu for each of the periods commencing from the date where the terms of the Baoding Jiufu Sub-Contracting Agreement become effective until 31 December 2020 and for the two years ending 31 December 2022 are RMB48 million, RMB50 million and RMB52 million respectively (the "Baoding Jiufu Sub-Contracting Caps"). In 2020, the transaction amount under Baoding Jiufu Sub-Contracting Agreement is approximately RMB1.2 million.

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

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

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

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

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

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

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

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

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

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 30 June 2020 made by the Company in respect of each of the continuing connected transactions.

SHARE OPTION SCHEME

During the year ended 31 December 2020, the Company did not adopt any share option scheme and no outstanding share options.

No share options were granted or exercised under any share option scheme during the year ended 31 December 2020 and 2019 and there were no outstanding share options as at 31 December 2020 and 2019.

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

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

LONG POSITIONS IN THE SHARES OF THE COMPANY:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	6,019,600	0.17%

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

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

PERMITTED INDEMNITY PROVISION

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long and short positions in the shares of the Company:

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Outwit Investments Limited ("Outwit")	1	1,671,671,149 (L)	Beneficial owner	47.09 (L)
Grand (Hongkong) International Investments Holdings Limited ("Grand Investment")	1	1,671,671,149 (L)	Interest of controlled corporation	47.09 (L)
China Grand Enterprises Incorporation ("China Grand")	1	1,671,671,149 (L)	Interest of controlled corporation	47.09 (L)
Shanghai China Grand Asset Finance Investment Management Co., Limited ("Shanghai Finance")	2	286,039,153 (L)	Beneficial owner/ Interest of controlled corporation	8.06 (L)
Mr. Hu Kaijun ("Mr. Hu")	1&2&3	1,998,730,302 (L)	Interest of controlled corporation	56.30 (L)
Ms. Chau Tung	1&2&3	1,998,730,302 (L)	Beneficial owner/ Interest in spouse	56.30 (L)
CDH Giant Health I Limited ("CDH Giant")	4	356,648,142 (L)	Beneficial owner	10.05 (L)

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
CDH Fund V, L.P. ("CDH Fund")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
CDH V Holdings Company Limited ("CDH V")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
China Diamond Holdings V Limited ("China Diamond V")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
China Diamond Holdings Company Limited ("China Diamond")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
Assicurazioni Generali S.p.A ("Assicurazioni")	6	261,461,959 (L)	Interest of controlled corporation	7.37 (L)
Mr. Li Zhenfu	7	261,461,959 (L)	Interest of controlled corporation	7.37 (L)
Lion River I N.V.	5&6	261,461,959 (L)	Interest of controlled corporation	7.37 (L)
GL Capital Management GP L.P. ("GL Management (L.P.)")	5	175,005,959 (L)	Interest of controlled corporation	4.93 (L)
GL Capital Management GP Limited ("GL Management (Limited)")	5	175,005,959 (L)	Interest of controlled corporation	4.93 (L)
GL China Opportunities Fund L.P. ("GL Opportunities")	5	175,005,959 (L)	Interest of controlled corporation	4.93 (L)
GL Partners Capital Management Ltd. ("GL Partners")	7	219,575,959 (L)	Interest of controlled corporation	6.19 (L)
GL Trade Investment Limited ("GL Trade")	5	175,005,959 (L)	Beneficial owner	4.93 (L)

(L) denotes long position

Notes:

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

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

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

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

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

   GL China Long Equity Opportunities Fund SPV LP ("GL Long Equity (SPV)") is the beneficial owner of 41,886,000 Shares. GL Long Equity (SPV) is a limited partnership incorporated in Canada. Lion River I N.V. owns 85.79% interests in GL China Long Equity Opportunities (Canada) Fund LP., which in turn owns 84.82% interests in GL Long Equity (SPV). Pursuant to the SFO these companies are therefore deemed to be interested in the 41,886,000 Shares.

   GL Trade is the beneficial owner of 175,005,959 Shares. GL Trade is wholly-owned by GL Opportunities. The general partner of GL Opportunities is GL Management (L.P.) and is in turn wholly-owned by GL Management (Limited). GL Management (Limited) is held as to 49% by Lion River I N.V. Pursuant to the SFO these companies are therefore deemed to be interested in the 175,005,959 Shares.

6. As stated above, Lion River I N.V. is deemed to be interested in an aggregate of 261,461,959 Shares. Lion River I N.V. is wholly-owned by Assicurazioni. Pursuant to the SFO Assicurazioni is therefore deemed to be interested in the 261,461,959 Shares.

7. Mr. Li Zhenfu owns 70% interests in GL Partners, which in turn owns 50% interests in GL Management (Limited) and 51% interests in GL Capital Management Limited. As stated above, GL Management (Limited) is indirectly interested in 175,005,959 Shares and GL Capital Management Limited is indirectly interested in 44,570,000 Shares, and pursuant to the SFO. Mr. Li Zhenfu is therefore deemed to be interested in the 219,575,959 Shares. Mr. Li Zhenfu also wholly-owns GL China Opportunities Carry GP Limited, which in turn wholly-owns GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd. GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd. is the general partner of GL Long Equity (SPV), which is the beneficial owner of 41,886,000 Shares. Pursuant to the SFO Mr. Li Zhenfu is therefore also deemed to be interested in the 41,886,000 Shares and in aggregate, 261,461,959 Shares.

Save as disclosed above, as at 31 December 2020, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the five largest customers of the Group accounted for less than 30% of the Group's total revenue while the five largest suppliers accounted for less than 30% the Group's total purchases.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2020 and as at the latest practicable date prior to the issue of this annual report.

TAX RELIEF AND EXEMPTION

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

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 49 to 54.

AUDITORS

The consolidated financial statements for the year ended 31 December 2020 have been audited by HLB Hodgson Impey Cheng Limited which shall retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Board of Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 17 March 2021

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Liu Chengwei, aged 47, was appointed as an executive Director in July 2008. Mr. Liu is the Chairman of the Company and is a director of Grand Pharm (China) Company Limited ("Grand Pharm (China)") and Xi'an Beilin, which both are subsidiaries of the Company. Mr. Liu has over 20 years of financial and management experience in the PRC. Mr. Liu is currently a director of the China Grand Enterprises Incorporation ("China Grand") (a substantial shareholder of the Company) and a supervisor of Huadong Medicine Company Limited, ("Huadong Medicine"), which is listed on the Shenzhen Stock Exchange (stock code: 000963). Huadong Medicine is owned as to approximately 41.77% by China Grand as at the date of this report, and is therefore a connected person (as defined in the Listing Rules) of the Company. Mr. Liu worked for General Electric Company for 5 years before joining China Grand in 2001. Mr. Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr. Hu Bo, aged 36, was appointed as an executive Director in July 2008. Mr. Hu has over 10 years of experience in network project management and property management. Mr. Hu is currently the assistant to president of a real estate company in the PRC. Mr. Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr. Hu is a nephew of Mr. Hu Kaijun, who controls and ultimately and beneficially owns the China Grand.

Dr. Shao Yan, aged 58, was appointed as an executive Director in October 2008. Dr. Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr. Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr. Shao has over 20 years of experience in corporate management and venture capital investment. Dr. Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr. Niu Zhanqi, aged 54, was appointed as an executive Director in November 2016. Dr. Niu has more than 10 years' experience in pharmaceutical research and development. He is currently the president of the Pharmaceutical Management Headquarters of China Grand. He also is a director of Huadong Medicine since June 2016. Dr. Niu holds a bachelor's degree in science from Nankai University and a doctoral degree (PhD) in pharmaceutics from Shenyang Pharmaceutical University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie, aged 58, was appointed as an independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Hu Yebi, aged 57, was appointed as an independent non-executive Director in December 2018. Mr. Hu received his Master of Business Administration from Netherlands International Institute for Management in the Netherlands and a Postgraduate Diploma in Management Engineering from Beijing Institute of Technology in Beijing, the PRC. Mr. Hu has more than twenty years of experience in securities and financial services, mergers and acquisitions and corporate finance. Mr. Hu is the founder and chairman of Vision Finance Group Limited. Mr. Hu is currently a non-executive director of Beijing Sports and Entertainment Industry Group Limited (stock code: 1803) and was an executive director of Beijing Enterprises Medical and Health Industry Limited (stock code: 2389) and Beijing Properties (Holdings) Limited (stock code: 925), but already resigned in October 2018 and November 2018 respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Dr. Pei Geng, aged 61, was appointed as an independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

SENIOR MANAGEMENT

Mr. Zhou Chao, aged 31, has been the executive deputy officer of the Company since June 2019, and is also a director of certain associated company of the Group. Mr. Zhou is responsible for overall internal management of the Group. Prior to joining the Company, Mr. Zhou was the legal manager, senior legal manager and business director of the department of legal security management of China Grand Enterprises Incorporation (a substantial shareholder of the Company), and he is also directors of certain local and overseas companies. Mr. Zhou graduated from the Law School of Ocean University of China in 2011, and obtained his Master of International Economic Law Degree from the University of International Business and Economics. Mr. Zhou led and participated several local and overseas transactions in related to large scale merger and acquisition projects and introduction of various types of products.

Mr. Foo Tin Chung, Victor, aged 52, joined the Company in September 2011 as a company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is the company secretary and chief financial officer of Justin Allen Holdings Limited (stock code: 1425) since April 2018, which is listed on the Stock Exchange.

Mr. Shi Xiaofeng, aged 54, joined the principal subsidiary Grand Pharm (China) since 2003 and was appointed as its director and general manager. Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA certificate at China Europe International Business School.

Mr. Qian Zhi Qiang, aged 52, joined the principal subsidiary Grand Pharm (China) since 1989 and used to work for it as a senior management, was currently appointed as director of Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"), has over 30 years of experience in pharmaceutical industry. Mr. Qian is responsible for overseeing the entire operation and management of Zhejiang Xianle. Mr. Qian holds a bachelor degree of pharmaceutical analysis at China Pharmaceutical University.

Mr. Feng Yonghua, aged 53, joined Zhejiang Xianle since 2002 and currently was appointed as its general manager. Mr. Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr. Feng holds a practicing pharmacist license in the PRC.

Independent Auditors' Report

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

香港
中環
畢打街11號
置地廣場
告羅士打大廈31樓

TO THE SHAREHOLDERS OF
CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 87 to 196, 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matter

Impairment assessment of pharmaceutical business

Refer to notes 3, 21 and 23 to the consolidated financial statements

The Group has goodwill and intangible assets of approximately HK$505,574,000 and HK$881,843,000 respectively relating to the manufacture and sales of pharmaceutical preparations and medical devices, biotechnology products and nutrition products, specialised pharmaceutical raw materials and other products mainly, in the People's Republic of China as at 31 December 2020. Management performed impairment assessment of pharmaceutical business and concluded that no impairment is necessary to provide. This conclusion was based on value-in-use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management's estimates.

Our procedures in relation to management's impairment assessment included:

- Evaluation of the independent valuer's competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the pharmaceutical business and using our valuation experts;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and
- Checking, on sampling basis, the accounting and relevance of the input data used.

We found the key assumptions were supported by the available evidence.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter

Impairment assessment of trade and other receivables, loan receivables and amounts due from related companies

Refer to notes 5(b)(iv),19 , 28, and 34 to the consolidated financial statements

As at 31 December 2020, the Group had gross trade and other receivables, loan receivables and amounts due from related companies of approximately HK$1,045,742,000, HK$160,462,000 and HK$46,758,000, respectively. The provision for impairment of trade and other receivables, loan receivables and amounts due from related companies are approximately HK$150,880,000, HK$827,000 and HK$11,322,000, respectively.

In general, the credit terms granted by the Group to the customers ranged between 30 to 180 days (2019: 30 to 180 days). Management applied judgement in assessing the expected credit losses ("ECL"). Trade and other receivables relating to customers with known financial difficulties or significant doubt on collection of trade receivables are assessed individually for provision for impairment allowance. ECL are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its business and its ageing category, and applying ECL rates to the respective gross carrying amounts of the trade receivables. The ECL rates are determined based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

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

Our procedures in relation to management's impairment assessment of the trade and other receivables, loan receivables and amounts due from related companies as at 31 December 2020 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;
- Checking, on a sample basis, the ageing profile of the trade and other receivables amounts due from related companies as at 31 December 2020 to the underlying financial records and post year-end settlements to bank receipts;
- Inquiring of management for the status of each of the material trade and other receivables, loan receivables and amounts due from related companies past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and
- Assessing the appropriateness of the ECL provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forwardlooking information, used to determine the ECL.

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

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter

Interests in associates

Refer to note 20 to the consolidated financial statements

As at 31 December 2020, the carrying amounts of interest in associates amounted to approximately HK$6,133.1 million which represented approximately 36.1% of the Group's total assets.

Included in the interests in associates, the Group has 49% interest in Grand Pharma Sphere Pte Limited ("Grand Pharma Sphere") which is accounted for under the equity method. The Group's share of loss from Grand Pharma Sphere for the year ended 31 December 2020 was approximately of HK$46.5 million and the Group's share of net assets of Grand Pharma Sphere was HK$3,341.3 million as at 31 December 2020, which represented approximately 19.7% of the Group's total assets.

Grand Pharma Sphere's revenue amounted to approximately HK$1,220.7 million for the year ended 31 December 2020. Revenue was generated from sale of SIR-Spheres Y-90 resin microspheres, a targeted radiotherapy for liver cancer. Revenue is recognised when control of the product has transferred to the customer, being when the product is delivered to the distributor or medical facility and when the customer has sole discretion over the use of the product and there are no unfulfilled obligations that could affect the customer's acceptance of the product.

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

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

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

- Obtaining detailed listing of revenue and agreed the total to the general ledger;
- Performing test of details verifying the validity and accuracy of a selection of revenue transactions to supporting documentation;
- Performing cut off test; and
- recalculating foreign currency accounts into Australian dollars at the average rate using external sources.

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

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter

Interests in associates (Continued)

Refer to note 20 to the consolidated financial statements *(Continued)*

Management determines at the end of each reporting period the existence of any objective evidence through which the Group's interests in all associates may be impaired. The assessment of indicators of impairment and where such indicators exist and the determination of the recoverable amounts requires significant judgement.

ii) Management's impairment assessment of interests in associates included:

— Evaluating of the Group's independent valuers' assessments as to whether any indication of impairment exist by reference to the available information in the relevant market and industries;

— Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge; and

— Checking, on a sample basis, the accuracy and relevance of information included in the impairment assessment of interest in associates.

We found the key assumption adopted in management impairment assessment on interests in associates were supported by the available evidence

OTHER INFORMATION

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 17 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	7	**6,352,919**	6,590,635
Cost of sales		**(2,317,725)**	(2,549,270)
Gross profit		**4,035,194**	4,041,365
Other revenue and income	8	**383,552**	263,655
Distribution costs		**(1,860,086)**	(2,239,494)
Administrative expenses		**(685,239)**	(609,621)
Impairment of financial assets at amortised cost, net		**(17,805)**	(57,825)
Fair value change on financial assets at fair value through profit or loss	9	**271,409**	(10,567)
Share of results of associates		**61,979**	114,962
Finance costs	10	**(115,421)**	(146,502)
Profit before tax		**2,073,583**	1,355,973
Income tax expense	11	**(292,374)**	(230,485)
Profit for the year	12	**1,781,209**	1,125,488
Other comprehensive income/(loss), net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value (loss)/gain on investment in equity instruments at fair value through other comprehensive income		**(15,602)**	176
Share of other comprehensive income of associates		**26,435**	10,419
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**356,602**	(75,664)
Other comprehensive income/(loss) for the year, net of income tax		**367,435**	(65,069)
Total comprehensive income for the year, net of income tax		**2,148,644**	1,060,419
Profit/(loss) for the year attributable to:			
— Owners of the Company		**1,792,661**	1,150,948
— Non-controlling interests		**(11,452)**	(25,460)
		1,781,209	1,125,488
Total comprehensive income/(loss) attributable to:			
— Owners of the Company		**2,174,432**	1,085,152
— Non-controlling interests		**(25,788)**	(24,733)
		2,148,644	1,060,419
Basic (HK cents)	14	**52.03**	35.12
Diluted (HK cents)	14	**52.03**	34.42

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

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment	16	**3,033,216**	2,921,470
Right-of-use assets	17	**377,113**	342,364
Investment properties	18	**132,696**	79,815
Interests in associates	20	**6,133,066**	5,165,955
Equity instruments at fair value through other comprehensive income	30	**171,164**	95,025
Loan receivables	19	**113,959**	–
Goodwill	21	**505,574**	480,321
Intangible assets	23	**881,843**	794,723
Deferred tax assets	24	**25,162**	19,872
Prepayments	25	**291,594**	97,439
		11,665,387	9,996,984
Current assets			
Financial assets at fair value through profit or loss	26	**520,767**	71,891
Inventories	27	**955,314**	814,373
Trade and other receivables	28	**1,894,160**	1,698,808
Loan receivables	19	**45,676**	–
Amounts due from related companies	34	**35,436**	50,697
Pledged bank deposits	29	**30,910**	121,285
Cash and cash equivalents	29	**1,836,695**	1,059,269
		5,318,958	3,816,323
Current liabilities			
Trade and other payables	31	**2,139,452**	2,026,196
Contract liabilities	31	**269,049**	305,558
Bank and other borrowings	32	**1,568,454**	967,607
Lease liabilities	33	**6,200**	22,621
Amounts due to related companies	34	**57,575**	33,155
Amount due to the immediate holding company	36	**2,331**	3,402
Income tax payable		**259,866**	231,024
		4,302,927	3,589,563
Net current assets		**1,016,031**	226,760
Total assets less current liabilities		**12,681,418**	10,223,744

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current liabilities			
Bank and other borrowings	32	**798,562**	1,062,690
Lease liabilities	33	**15,162**	11,928
Deferred tax liabilities	35	**181,879**	171,506
Deferred income	37	**341,606**	466,613
		1,337,209	1,712,737
Net assets		**11,344,209**	8,511,007
Capital and reserves attributable to owners of the Company			
Share capital	38	**35,496**	33,776
Reserves		**11,204,008**	8,341,491
Equity attributable to owners of the Company		**11,239,504**	8,375,267
Non-controlling interests		**104,705**	135,740
Total equity		**11,344,209**	8,511,007

The consolidated financial statements on pages 87 to 196 were approved and authorised for issue by the board of directors of the Company on 17 March 2021 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Contribution Surplus reserve HK$'000	Statutory reserve HK$'000 (Note a)	Safety fund reserve HK$'000 (Note b)	Translation reserve HK$'000	Other reserve HK$'000 (Note c)	Convertible bonds reserve HK$'000 (Note d)	FVTOCI reserve HK$'000	Retained profits HK$'000	Total equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 January 2019	31,348	5,052,102	121,273	273,165	28,825	(141,922)	(92,677)	65,979	862	1,852,004	7,190,959	243,668	7,434,627
Profit for the year	–	–	–	–	–	–	–	–	–	1,150,948	1,150,948	(25,460)	1,125,488
Other comprehensive loss for the year, net of income tax:													
Change in fair value of FATOCI	–	–	–	–	–	–	–	–	176	–	176	–	176
Share of other comprehensive income of associates	–	–	–	–	–	10,419	–	–	–	–	10,419	–	10,419
Exchange difference on translation of foreign operations	–	–	–	–	–	(76,391)	–	–	–	–	(76,391)	727	(75,664)
Total comprehensive income for the year	–	–	–	–	–	(65,972)	–	–	176	1,150,948	1,085,152	(24,733)	1,060,419
Convertible bond converted into shares during the year	2,222	356,594	–	–	–	–	–	(65,979)	–	–	292,837	–	292,837
Issued under subscription, net	206	102,411	–	–	–	–	–	–	–	–	102,617	–	102,617
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	(5,827)	–	–	–	(5,827)	(77,803)	(83,630)
Dividend paid	–	–	–	–	–	–	–	–	–	(290,471)	(290,471)	(5,392)	(295,863)
Transfer	–	–	–	130,345	–	–	–	–	–	(130,345)	–	–	–
As at 31 December 2019 and 1 January 2020	33,776	5,511,107	121,273	403,510	28,825	(207,894)	(98,504)	–	1,038	2,582,136	8,375,267	135,740	8,511,007
Profit for the year	–	–	–	–	–	–	–	–	–	1,792,661	1,792,661	(11,452)	1,781,209
Other comprehensive loss for the year, net of income tax:													
Change in fair value of FATOCI	–	–	–	–	–	–	–	–	(15,602)	–	(15,602)	–	(15,602)
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	26,435	–	26,435	–	26,435
Exchange difference on translation of foreign operations	–	–	–	–	–	370,938	–	–	–	–	370,938	(14,336)	356,602
Total comprehensive income for the year	–	–	–	–	–	370,938	–	–	10,833	1,792,661	2,174,432	(25,788)	2,148,644
Convertible bond converted into shares during the year	–	–	–	–	–	–	–	–	–	–	–	–	–
Issued under subscription, net	1,720	1,011,942	–	–	–	–	–	–	–	–	1,013,662	–	1,013,662
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	388	–	–	–	388	–	388
Dividend paid	–	–	–	–	–	–	–	–	–	(324,245)	(324,245)	(5,247)	(329,492)
Transfer	–	–	–	76,172	–	–	–	–	–	(76,172)	–	–	–
As at 31 December 2020	35,496	6,523,049	121,273	479,682	28,825	163,044	(98,116)	–	11,871	3,974,380	11,239,504	104,705	11,344,209

Notes:

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

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

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Operating activities			
Profit before tax		**2,073,583**	1,355,973
Adjustments for:			
Amortisation of intangible assets	23	**11,660**	8,305
Depreciation of property, plant and equipment	16	**259,821**	457,174
Depreciation of right-of-use assets	17	**15,580**	11,657
Finance costs	10	**115,421**	146,502
Recognition of government grant	37	**(163,504)**	(142,001)
Loss on disposal of property, plant and equipment	12, 16	**3,587**	31,574
Write-off of property, plant and equipment	12, 16	**7,009**	7,441
Impairment loss on inventories	12	**8,165**	6,872
Allowance for expected credit loss recognised in respect of trade and other receivables	12	**9,888**	54,145
Allowance for expected credit loss recognised in respect of loan receivables	12	**827**	–
Allowance for expected credit loss recognised in respect of amounts due from related companies	12	**7,090**	3,680
Dividends received from associates		**–**	807
Fair value (gain)/loss on financial assets at fair value through profit or loss	9	**(264,972)**	11,666
Interest income	8	**(18,046)**	(11,152)
Share of results of associates		**(61,979)**	(114,962)
Gain on sales and lease back transaction, net	8	**(8,576)**	(28,378)
Net gain in fair value of investment properties	8, 18	**(45,648)**	(6,974)
Investment income from financial assets at fair value through profit or loss	9	**(6,437)**	(1,099)
Operating cash flows before movements in working capital		**1,943,469**	1,791,230
Increase in inventories		**(100,962)**	(65,119)
Increase in trade and other receivables		**(122,231)**	(143,546)
Increase/(decrease) in trade and other payables		**2,489**	(297,152)
Decrease/(increase) in amounts due from related companies		**8,771**	(43,494)
Increase in amounts due to related companies		**21,288**	23,130
(Decrease)/increase in contract liabilities		**(51,817)**	153,983
Increase in deferred incomes		**14,853**	22,615
Cash generated from operations		**1,715,860**	1,441,647
Income tax paid		**(259,914)**	(137,702)
Net cash generated from operating activities		**1,455,946**	1,303,945

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Investing activities			
Purchase of property, plant and equipment	16	(209,011)	(566,038)
Purchase of intangible asset	23	(49,560)	(1,148)
Payments of right-of-use assets		(20,029)	(32,194)
Acquisition of financial assets at fair value through profit or loss		(193,762)	(49,998)
Acquisition of financial assets at fair value through other comprehensive income		(86,110)	–
Increase in loan receivables		(160,462)	–
Addition of investments in associates		(911,479)	(63,136)
Dividends received from associates		410,967	–
Advances from associates		21,630	309,013
Repayment of advances from associates		(256,469)	(18,463)
Decrease in deposits for acquisition of non-current assets		–	39,350
Withdrawal/(placement) of pledged bank deposits		92,520	(49,738)
Increase in non-current prepayments		(188,649)	(14,271)
Proceeds from disposal of property, plant and equipment		1,531	–
Proceeds from disposal of financial assets at fair value through profit or loss		11,237	11,412
Interest income received	8	18,046	11,152
Investment income from financial assets at fair value through profit or loss	9	6,437	1,099
Net cash outflow from acquisition of subsidiaries that are not constitute business	39	–	(20,619)
Net cash used in investing activities		(1,513,163)	(443,579)
Financing activities			
Acquisition of partial interest of a subsidiary	22	(10,102)	(83,630)
Net proceed from issue of new shares from subscription		1,013,662	102,617
Repayments of bank and other borrowings		(1,900,619)	(1,749,903)
Repayments of lease liabilities	33	(24,427)	(58,798)
Repayments of bond payables		–	(113,436)
Interest paid		(115,421)	(128,605)
Proceed from new bank and other borrowings		2,141,875	1,631,508
Repayment to an immediate holding company		(1,207)	(14,090)
Dividend paid		(324,245)	(290,471)
Dividends paid to non-controlling interest		(5,247)	(5,392)
Net cash generated from/(used in) financing activities		774,269	(710,200)
Net increase in cash and cash equivalents		717,052	150,166
Cash and cash equivalents at the beginning of year		1,059,269	912,244
Effect of foreign exchange rate changes		60,374	(3,141)
Cash and cash equivalents at the end of year			
Cash and cash equivalents		1,836,695	1,059,269

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

1. GENERAL INFORMATION

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

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

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

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

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

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 16	Covid-19 Related Rent Concessions[3]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1	Classification of liabilities as Current or Non Current, and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contracts[2]
Amendments to HKFRS Standards	Annual Improvement to HKFRS Standards 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 1 June 2020
4 Effective for annual periods beginning on or after date to be determine
5 Effective for annual periods beginning on or after 1 January 2021

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

Changes in the Group's interests in existing subsidiaries

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

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

Business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

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

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

Acquisition of a subsidiary not constituting a business

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

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

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

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

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

Investments in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

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

Sale of goods

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

Dividend income

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

Interest income

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

Rental income

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Definition of a lease

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

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 also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Right-of-use assets (Continued)

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

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

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

Refundable rental deposits

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Lease liabilities (Continued)

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The lease liabilities is presented as a separate line item on 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. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessor

Classification and measurement of leases

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

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise. When a lease contract contains a specific clause that provides for rent reduction or suspension of rent in the event that the underlying assets (or any part thereof) are affected by adverse events beyond the control of the Group and the lessee so as to render the underlying assets unfit or not available for use, the relevant rent reduction or suspension of rent resulting from the specific clause is accounted for as part of the original lease and not as a lease modification. Such rent reduction or suspension of rent is recognised in profit or loss in the period in which the event or condition that triggers those payments to occur.

Allocation of consideration to components of a contract

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

Refundable rental deposits

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessor *(Continued)*

Sublease

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

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

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

Exchange difference arising on the settlement of monetary items, and on the retranslation of monetary items receivable from or payable to a foreign operation for which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates at the date of transactions are used. Exchange difference arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Borrowing costs

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

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

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

Government grants

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

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

Government grants 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 revenue and income".

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

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

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

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

Current and deferred tax for the year

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

Ownership interests in leasehold land and building

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

Investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Cash and cash equivalents

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

Provision

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

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

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

Employee benefit

Retirement benefit costs and termination benefits

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Retirement benefit costs and termination benefits *(Continued)*

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

Defined benefit costs are categorised as follows:

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Short-term and other long-term employee benefits

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

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

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

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

Financial instruments

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

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

A financial asset is held for trading if:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

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.

Equity instruments designated as at FVTOCI

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

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

Financial assets at FVTPL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

Significant increase in credit risk

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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.

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

Definition of default

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

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

Credit-impaired financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Write-off policy

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

Measurement and recognition of ECL

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Measurement and recognition of ECL *(Continued)*

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

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

Financial liabilities and equity instruments

Classification as financial liabilities or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities (including bank and other borrowings, lease liabilities, trade payables, accruals and other payables, amounts due to related companies and amount due to the immediate holding company) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

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

Derecognition

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

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Valuation of inventories

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

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

Key sources of estimation uncertainty

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

Valuation of investment properties

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

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

Impairment of goodwill

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

The carrying amount of goodwill as at 31 December 2020 was approximately HK$505,574,000 (2019: HK$480,321,000). Details of the recoverable amount calculation are disclosed in note 21.

Impairment of intangible assets

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

The carrying amount of intangible assets as at 31 December 2020 was approximately HK$881,843,000 (2019: HK$794,723,000). Detailed information is disclosed in note 23.

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

Key sources of estimation uncertainty *(Continued)*

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

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables, loan receivables and amounts due from related companies are disclosed in notes 5(b)(iv), 19, 28 and 34.

Income tax and deferred tax

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

Estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets

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

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

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

During the year ended 31 December 2020, the Group did not change the estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets.

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

Key source of estimation uncertainty *(Continued)*

Fair value measurements and valuation processes

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

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of assets and liabilities. Notes 5(b)(vi), 18, 26 and 30 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Impairment test for interests in associates

The Group completed its annual impairment test for interests in associates by comparing the recoverable amount of interests in associates to its carrying amount as at 31 December 2020. The Group has engaged the Valuer to carry out a valuation of the interests in associates as at 31 December 2020 based on the value in use calculations. This valuation uses cash flow projections based on the financial estimates covering a five-year period, and discount rates ranged from 12.25% to 19.41%. The cash flows beyond the five-year period and ten-year period are extrapolated using a steady 2.2% to 3.0% growth rate for the pharmaceutical industries in which are operated by associates.

Determining the lease term

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

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 HK$'000	2019 HK$'000
Financial assets		
Equity Instruments at FVTOCI	**171,164**	95,025
Financial assets at FVTPL	**520,767**	71,891
Financial asset at amortised cost (including cash and cash equivalents)		
— Trade and other receivables	**1,587,669**	1,465,992
— Loan receivables	**159,635**	–
— Amounts due from related companies	**35,436**	50,697
— Pledged bank deposits	**30,910**	121,285
— Cash and cash equivalents	**1,836,695**	1,059,269
	4,342,276	2,864,159
Financial liabilities		
At amortised costs		
— Trade and other payables	**1,984,356**	1,965,600
— Bank and other borrowings	**2,367,016**	2,030,297
— Lease liabilities	**21,362**	34,549
— Amounts due to related companies	**57,575**	33,155
— Amount due to the immediate holding company	**2,331**	3,402
	4,432,640	4,067,003

(b) Financial risk management objectives and policies

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

i. Currency risk

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

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

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2019: 10%) in exchange rate of USD against RMB while all other variables are held constant. 10% (2019: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2019: 10%) change in foreign currency rates.

	2020	2019
	HK$'000	HK$'000
Increase/(decrease) in profit for the year		
— if USD weakens against of RMB	**(17,317)**	(15,237)
— if USD strengthens against of RMB	**17,317**	15,237

A change of 10% (2019: 10%) in exchange rate of USD against RMB does not affect other components of equity except the translation reserve.

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

	2020	2019
	HK$'000	HK$'000
USD		
— Trade and other receivables	**148,268**	132,765
— Loan receivables	**160,462**	–
— Cash and cash equivalents	**38,547**	36,801
— Trade and other payables	**(293)**	(17,113)

5. FINANCIAL INSTRUMENTS *(Continued)*

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

ii. Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates and variable-rate borrowings (see note 32). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2019: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2019: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$1,265,000 (2019: increase/decrease by approximately HK$1,752,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank and other borrowings.

iii. Liquidity risk

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

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iii. Liquidity risk *(Continued)*

As at 31 December 2020

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,984,356	1,984,356	–	–	–	1,984,356
Bank and other borrowings	3.47	2,513,455	1,623,792	269,554	620,109	–	2,367,016
Lease liabilities	7.68	26,653	7,589	5,966	7,755	5,343	21,362
Amounts due to related companies	–	57,575	57,575	–	–	–	57,575
Amount due to the immediate holding company	–	2,331	2,331	–	–	–	2,331
		4,584,370	3,675,643	275,520	627,864	5,343	4,432,640

As at 31 December 2019

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. Credit risk

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

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, ECL rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2020 and 2019.

The credit risk for amount due from associates are considered to be low, therefore no ECL provision was made during the year ended 31 December 2020 and 2019.

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

At the end of each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

As at 31 December 2020 and 2019, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of pharmaceutical products and are transacted on credit. The Group's trade receivables arise from sales of pharmaceutical products to the customers. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 5.87% and 1.99% (2019: 8.76% and 3.76%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. Credit risk *(Continued)*

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

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

(1) Provision of ECL on trade and other receivables

The tables below show credit quality and maximum exposure to credit risk based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2020 and 31 December 2019.

As at 31 December 2020	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Trade receivables and other receivables				
— Industry average	9,044	–	–	9,044
— CCC- to CC	–	4,100	–	4,100
— D	–	–	137,736	137,736
	9,044	4,100	137,736	150,880

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. Credit risk *(Continued)*

(1) Provision of ECL on trade and other receivables (Continued)

The provision of trade receivables as at 31 December 2020 and 2019 were as follows:

	HK$'000
As at 1 January 2019	60,804
Provision for the year	41,122
Exchange realignment	(1,732)
As at 31 December 2019 and 1 January 2020	100,194
Provision for the year	1,408
Exchange realignment	6,025
As at 31 December 2020	**107,627**

The provision of ECL on other receivables as at 31 December 2020 and 2019 were as follows:

	HK$'000
As at 1 January 2019	19,891
Provision for the year	13,023
Exchange realignment	(212)
As at 31 December 2019 and 1 January 2020	32,702
Provision for the year	8,480
Exchange realignment	2,071
As at 31 December 2020	**43,253**

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. Credit risk *(Continued)*

(2) Provision of ECL on due from related companies

The table below show credit quality and maximum exposure to credit risk of amounts due from related companies based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2020 and 2019.

As at 31 December 2020	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Amounts due from related companies				
— Industry average	1,981	–	–	1,981
— CCC- to CC	–	5	–	5
— D	–	–	9,336	9,336
	1,981	5	9,336	11,322

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

The provision of ECL on due from related companies as at 31 December 2020 and 2019 was as follows:

	HK$'000
As at 1 January 2019	–
Provision for the year	3,680
Exchange realignment	(51)
As at 31 December 2019 and 1 January 2020	3,629
Provision for the year	7,090
Exchange realignment	603
As at 31 December 2020	**11,322**

5. FINANCIAL INSTRUMENTS *(Continued)*

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

iv. Credit risk *(Continued)*

(3) Provision of ECL on loan receivables

The table below show credit quality and maximum exposure to credit risk of loan receivables based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2020.

As at 31 December 2020	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK$'000	Total HK$'000
Amounts due from related companies				
— Industry average	827	–	–	827
— CCC- to CC	–	–	–	–
— D	–	–	–	–
	827	–	–	827

The provision of ECL on loan receivables as at 31 December 2020 was as follows:

	HK$'000
As at 1 January 2020	–
Provision for the year	827
Exchange realignment	–
As at 31 December 2020	**827**

v. Equity price risk

The Group is exposed to equity price risk through its investment in equity securities measured at FVTPL and FVTOCI. For equity securities measured at FVTPL quoted in relative active markets, the management of the Group manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities for investees operating in pharmaceutical industry sector for long term strategic purposes which had been designated as FVTOCI.

The sensitivity analysis have been determined based on the exposure to equity price risk at the reporting date. Sensitivity analysis for unquote equity securities with fair value measurement categorized within Level 3 were disclosed in note 5(b)(vi).

5. FINANCIAL INSTRUMENTS *(Continued)*

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

v. Equity price risk *(Continued)*

If the prices of the respective equity instruments listed in Hong Kong had been 5% (2019: 5%) higher/lower, the post-tax profit for the year ended 31 December 2020 would increase/decrease by approximately HK$1,750,000 (2019: would increase/decrease by approximately HK$1,917,000) as a result of the changes in fair value of listed equity security in Hong Kong.

If the prices of the respective equity instruments listed outside Hong Kong had been 5% higher/lower, the post-tax profit for the year ended 31 December 2020 would increase/decrease by approximately HK$23,103,000 as a result of the changes in fair value of listed equity security outside Hong Kong.

vi. Fair value

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

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

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

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

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

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

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

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

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

5. FINANCIAL INSTRUMENTS *(Continued)*

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

vi. Fair value *(Continued)*

Fair value hierarchy

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL (note 26)	**520,767**	**–**	**–**	**520,767**

	2019			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL (note 26)	71,891	–	–	71,891

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Equity instruments at FVTOCI (note 30) (note (a))	**–**	**–**	**171,164**	**171,164**

	2019			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Equity instruments at FVTOCI (note 30) (note (a))	–	–	95,025	95,025

5. FINANCIAL INSTRUMENTS *(Continued)*

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

vi. Fair value *(Continued)*

Fair value hierarchy (Continued)

Note:

(a) As at 31 December 2020, the fair value of equity instruments of approximately HK$171,164,000 (2019: HK$95,025,000) were valued by an independent valuer. The calculation was based on investment costs and including some unobservable inputs.

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

	Valuation technique	Significant unobservable inputs	2020	2019
9.6% of Ningbo Donghai Bank of Shares	Market approach	Adjusted Profit-To-Book ratio (note i)	**1.00**	1.42
		Liquidity discount rate (note ii)	**15.8%**	25.6%
7.4% of eTheRNA Immunotherapies NV of Preferred Series B Shares	Discounted cash flow method	Terminal growth rate	**1.60%**	–
		Discount rate (note iii)	**18.10%**	–
13.3% of Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares	Discounted cash flow method	Terminal growth rate	**0.0%**	–
		Discount rate (note iii)	**17.19%**	–

Notes:

(i) A slight increase in the adjusted profit-to-book ratio used in isolation would result in a significant increase in the fair value measurement of the Ningbo Donghai Bank of Shares, and vice versa. As a result of the volatile financial market in 2020, the management adjusted the adjusted profit-to-book ratio from 1.42 to 1.00. A 5% (2019: 5%) increase/decrease in the adjusted profit-to-book ratio holding all other variables constant would increase/decrease the carrying amount of the Ningbo Donghai Bank of Shares by HK$46,588,000 (2019: HK$48,181,000).

(ii) A slight increase in the liquidity discount rate used in isolation would result in a slight decrease in the fair value measurement of Ningbo Donghai Bank of Shares, and vice versa. A 5% (2019: 5%) increase/decrease in the liquidity discount rate holding all other variables constant would decrease/increase the carrying amount of the Ningbo Donghai Bank of Shares by HK$3,696,000 (2019: HK$16,470,000).

(iii) A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of the eTheRNA Immunotherapies NV of Preferred Series B Shares and Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares respectively, and vice versa. A 5% increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the eTheRNA Immunotherapies NV of Preferred Series B Shares and Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares by HK$5,729,000 and HK$3,363,000 respectively.

5. FINANCIAL INSTRUMENTS *(Continued)*

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

vi. Fair value *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	2020 HK$'000	2019 HK$'000
As at 1 January	**95,025**	96,526
Purchase during the year	**86,110**	–
Fair value (loss)/gain in other comprehensive income	**(15,602)**	176
Exchange alignment	**5,631**	(1,677)
As at 31 December	**171,164**	95,025

Included in other comprehensive income is a fair value loss in an amount of approximately HK$15,602,000 (2019: fair value gain approximately HK$176,000) relating to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of "FVTOCI reserve".

6. CAPITAL RISK MANAGEMENT

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

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

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

Gearing ratio

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

6. CAPITAL RISK MANAGEMENT *(Continued)*

Gearing ratio *(Continued)*

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

	2020 HK$'000	2019 HK$'000
Debts (note (a))	**2,448,284**	2,101,403
Cash and cash equivalents	**(1,867,605)**	(1,180,554)
Net debt	**580,679**	920,849
Equity (note (b))	**11,239,504**	8,375,267
Net debt to equity ratio	**5%**	11%

Notes:

(a) Debts comprises bank and other borrowings, lease liabilities, amounts due to related companies and amount due to the immediate holding company respectively.

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

7. REVENUE AND SEGMENT INFORMATION

For the years ended 31 December 2020 and 2019, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products, nutrition products, specialised pharmaceutical raw materials and other products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

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

Geographical information

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

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

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

	Revenue from external customers		Non-current assets	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
The PRC	**4,842,323**	5,430,277	**7,567,295**	7,056,007
America	**471,258**	480,998	**–**	–
Europe	**356,331**	261,209	**–**	–
Asia other than the PRC	**530,094**	315,623	**21,739**	490
Others	**152,913**	102,528	**–**	–
Total	**6,352,919**	6,590,635	**7,589,034**	7,056,497

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

Information about major customers

For the years ended 31 December 2020 and 2019, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

Revenue

Disaggregation of revenue from contracts with customers

	2020 HK$'000	2019 HK$'000
Type of goods and services		
Manufacture and sales of pharmaceutical preparations and medical devices	**4,081,751**	4,268,653
Sales of bio-technology products and nutrition products	**1,503,082**	1,556,922
Sales of specialised pharmaceutical raw materials and other products	**768,086**	765,060
Total revenue recognised at point in time	**6,352,919**	6,590,635

	2020 HK$'000	2019 HK$'000
Revenue disclosed in segment information		
External customers	**6,352,919**	6,590,635
Timing of revenue recognition		
At a point in time	**6,352,919**	6,590,635

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

8. OTHER REVENUE AND INCOME

	2020 HK$'000	2019 HK$'000
Government grants	258,248	199,325
Interest income	18,046	11,152
Sales of raw materials, scrap and other materials, net	20,531	7,839
Gain on sales and lease back transaction, net	8,576	28,378
Rental income	736	504
Net gain in fair value of investment properties	45,648	6,974
Compensation income	17,273	5,653
Sundry incomes	14,494	3,830
	383,552	263,655

* The total amount in 2020 consist of government grant that have conditions amounted approximately HK$163,504,000 (2019: HK$142,001,000) and government grant which have no condition amounted approximately HK$94,744,000 (2019: HK$57,324,000) respectively.

9. FAIR VALUE CHANGE ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK$'000	2019 HK$'000
Listed equity security in HK	(3,333)	(11,666)
Listed equity security outside HK	268,305	–
Investment income at fair value	6,437	1,099
	271,409	(10,567)

10. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest on bank and other borrowings:		
— wholly repayable within five years	112,877	121,788
Interest on bond payables	–	5,988
Interest on convertible bonds	–	11,909
Interest on amount due to the immediate holding company	–	21
Interest on lease liabilities	2,544	6,796
	115,421	146,502

11. INCOME TAX EXPENSE

	2020 HK$'000	2019 HK$'000
Current tax:		
The PRC Enterprise Income Tax	296,475	240,372
Deferred tax (notes 24 and 37)	(4,101)	(9,887)
	292,374	230,485

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax at the rate of neither 8.25% nor 16.5% (2019: neither 8.25% nor 16.5%). Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

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

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

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

	2020 HK$'000	2019 HK$'000
Profit before tax	2,073,583	1,355,973
Tax at the domestic income tax rate of 25% (2019: 25%)	518,396	338,993
Tax effect of share of results of associates	(9,416)	(28,741)
Tax effect of expenses not deductible for tax purpose	23,835	30,379
Tax effect of income not taxable for tax purpose	(75,653)	(14,280)
Tax effect of deductible temporary differences not recognised	260	1,044
Effect of tax exemptions granted to the PRC subsidiaries	(17,481)	(20,993)
Income tax on concessionary rate	(172,364)	(102,617)
Tax effect of tax losses not recognised	24,797	26,700
Tax charge for the year	292,374	230,485

The applicable tax rate of 25% (2019: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

12. PROFIT FOR THE YEAR

	2020 HK$'000	2019 HK$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments (note 15)) comprises:		
— Wages and salaries	**974,924**	908,043
— Retirement benefits schemes contributions (note 44)	**12,585**	61,178
	987,509	969,221
Depreciation of property, plant and equipment (note 16)	**259,821**	457,174
Depreciation of right-of-use assets (note 17)	**15,580**	11,657
Amortisation of intangible assets (note 23)	**11,660**	8,305
Total depreciation and amortisation	**287,061**	477,136
Allowance for ECL on financial assets		
— trade and other receivables	**9,888**	54,145
— amounts due from related companies	**7,090**	3,680
— loan receivables	**827**	–
Allowance for ECL of financial assets at amortised cost, net	**17,805**	57,825
Auditors' remuneration		
— audit services	**3,400**	3,180
— non-audit services	**–**	–
Cost of inventories recognised as an expense	**2,317,725**	2,549,270
Gain on sales and lease back transaction, net	**(8,576)**	(28,378)
Write-off of property, plant and equipment	**7,009**	7,441
Research and development expenditure	**219,310**	186,130
Impairment loss on inventories	**8,165**	6,872
Loss on disposal of property, plant and equipment	**3,587**	31,574
Net foreign exchange loss/(gain)	**26,612**	(7,220)
Short-term lease rental expenses	**4,777**	14,969
Net (gain)/loss on financial assets at FVTPL		
— Unrealised (gain)/loss on financial assets at FVTPL	**(264,972)**	11,666
— Realised gain on financial assets at FVTPL	**(6,437)**	(1,099)

13. DIVIDEND

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

	2020 HK$'000	2019 HK$'000
Final dividend proposed after the end of the reporting period of HK$0.11 per share (2019: HK$0.096 per share)	390,450	324,250

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

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

	2020 HK$'000	2019 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.096 per share (2019: HK$0.086)	324,245	290,471

14. EARNINGS PER SHARE

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

	2020 HK$'000	2019 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share calculation	1,792,661	1,150,948
Effect of dilutive potential ordinary shares:		
— Interest on convertible bond (net of tax)	–	9,598
Earnings for the purpose of diluted earnings per share calculation	1,792,661	1,160,546

	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	3,445,243	3,277,561
Effect of dilutive potential ordinary shares:		
— Convertible bonds	–	93,760
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	3,445,243	3,371,321

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

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2020 HK$'000	2019 HK$'000
Fees:		
Executive directors	150	150
Independent non-executive directors	340	340
	490	490
Other emoluments:		
Salaries and allowances	1,926	2,521
Retirement benefits scheme contributions	18	18
	2,434	3,029

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2020 and 2019.

The emoluments paid or payable to each of the seven (2019: seven) directors for the year ended 31 December 2020 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan *(Chief executive officer)*	–	1,926	18	1,944
Dr. Niu Zhanqi	50	–	–	50
		–	–	
Independent non-executive directors:		–	–	
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Hu Yebi	100	–	–	100
Dr. Pei Geng	60	–	–	60
Total	490	1,926	18	2,434

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

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2019 are as follows:

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

During the current year ended 31 December 2020, Dr. Shao Yan agreed to waive a portion of emoluments of approximately HK$252,000.

During year ended 31 December 2019, no directors of the Company agreed to waive or waived any emoluments.

During both years ended 31 December 2020 and 2019, the executive director of the Company, Dr. Shao Yan, was the chief executive officer of the Company.

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2019: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2019: four) individuals are as follows:

	2020 HK$'000	2019 HK$'000
Employees		
Salaries and allowances	**8,377**	6,253
Retirement benefits schemes contributions	**373**	168
	8,750	6,421

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

(b) Five Highest Paid Individuals *(Continued)*

These emoluments were within the following bands:

	2020 No. of employees	2019 No. of employees
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	–	3
HK$1,500,001 to HK$2,000,000	2	–
Over HK$2,000,000	2	1
	4	4

During both years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management who are non-director of the Group are within the following band.

	2020 No. of employees	2019 No. of employees
Nil to HK$1,000,000	3	2
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	1	–
Over HK$2,000,000	–	1
	5	5

During both years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Owned buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
As at 1 January 2019	1,456,990	1,708	1,630,899	27,793	67,071	412	623,984	3,808,857
Additions	122,633	–	214,217	8,496	20,735	–	199,957	566,038
Disposals	(17,086)	–	(25,666)	(2,567)	(3,501)	–	–	(48,820)
Acquired through acquisition of assets (note 39)	–	–	–	–	–	–	25,645	25,645
Write-off	–	–	(22,103)	(2,717)	(885)	–	–	(25,705)
Transfer	16,845	–	72,727	–	1,699	–	(91,271)	–
Exchange realignment	(25,988)	(30)	(31,676)	(529)	(1,406)	–	(12,889)	(72,518)
As at 31 December 2019 and 1 January 2020	1,553,394	1,678	1,838,398	30,476	83,713	412	745,426	4,253,497
Additions	17,545	–	86,790	3,911	18,848	–	81,917	209,011
Disposals	(2,109)	–	(37,947)	(3,818)	(4,877)	–	–	(48,751)
Acquired through acquisition of assets (note 39)	–	–	–	–	–	–	–	–
Write-off	(3,886)	–	(41,959)	(2,089)	(1,104)	–	–	(49,038)
Transfer	317,284	–	26,317	–	29,967	–	(373,568)	–
Exchange realignment	110,188	100	110,953	1,701	7,276	–	28,317	258,535
As at 31 December 2020	1,992,416	1,778	1,982,552	30,181	133,823	412	482,092	4,623,254
Accumulated depreciation and impairment								
As at 1 January 2019	290,096	–	582,842	13,764	45,300	412	–	932,414
Depreciation provided for the year	127,114	–	300,756	4,701	24,603	–	–	457,174
Eliminated on disposals	(1,366)	–	(10,251)	(2,320)	(3,309)	–	–	(17,246)
Eliminated on write-off	–	–	(16,624)	(1,167)	(473)	–	–	(18,264)
Exchange realignment	(6,790)	–	(13,935)	(259)	(1,067)	–	–	(22,051)
As at 31 December 2019 and 1 January 2020	409,054	–	842,788	14,719	65,054	412	–	1,332,027
Depreciation provided for the year	77,078	–	155,496	2,562	24,685	–	–	259,821
Eliminated on disposals	(7,021)	–	(30,002)	(3,340)	(3,270)	–	–	(43,633)
Eliminated on write-off	(1,612)	–	(38,452)	(1,027)	(938)	–	–	(42,029)
Exchange realignment	28,024	–	50,106	778	4,944	–	–	83,852
As at 31 December 2020	505,523	–	979,936	13,692	90,475	412	–	1,590,038
Net carrying amounts								
As at 31 December 2020	**1,486,893**	**1,778**	**1,002,616**	**16,489**	**43,348**	**–**	**482,092**	**3,033,216**
As at 31 December 2019	1,144,340	1,678	995,610	15,757	18,659	–	745,426	2,921,470

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

The above items of property, plant and equipment, except for construction in progress and allocated land are depreciated on a straight-line basis, at the following rates per annum:

Buildings	2.5%–10%
Plant and machinery	5%–25%
Equipment	12%–33.3%
Motor vehicles	10%–25%
Others	12.5%–20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant PRC's authorities.

Buildings are held in the PRC under medium-term leases.

As at 31 December 2020 and 2019, certain buildings in the Group aggregated amount of approximately HK$136,000 (2019: HK$121,450,000) have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 42.

17. RIGHT-OF-USE ASSETS

	Motor vehicle leased for own used HK$'000	Buildings leased for own use HK$'000	Land right use HK$'000	Total HK$'000
Cost				
As at 1 January 2019	–	5,316	297,503	302,819
Additions	248	14,109	35,280	49,637
Acquired through acquisition of assets (note 39)	–	–	31,224	31,224
Exchange realignment	(3)	(392)	(7,073)	(7,468)
As at 31 December 2019 and 1 January 2020	245	19,033	356,934	376,212
Additions	–	10,172	20,029	30,201
Exchange realignment	7	1,150	20,522	21,679
As at 31 December 2020	252	30,355	397,485	428,092
Accumulated depreciation				
As at 1 January 2019	–	–	22,334	22,334
Depreciation provided for the year	114	4,108	7,435	11,657
Exchange realignment	(2)	(38)	(103)	(143)
As at 31 December 2019 and 1 January 2020	112	4,070	29,666	33,848
Depreciation provided for the year	133	6,298	9,149	15,580
Exchange realignment	7	258	1,286	1,551
As at 31 December 2020	252	10,626	40,101	50,979
Net carrying amounts				
As at 31 December 2020	**–**	**19,729**	**357,384**	**377,113**
As at 31 December 2019	133	14,963	327,268	342,364

17. RIGHT-OF-USE ASSETS *(Continued)*

Notes:

1. The Group leases several assets including properties and land right use. The average lease term is 7 years.

2. As at 31 December 2020, the Group is committed approximately to HK$957,000 for short-term leases.

3. The total cash outflow for leases amount approximately to HK$26,971,000 for the year ended 31 December 2020.

18. INVESTMENT PROPERTIES

	2020 HK$'000	2019 HK$'000
Investment properties	**132,696**	79,815

	2020 HK$'000	2019 HK$'000
As at 1 January	**79,815**	74,228
Fair value gain recognised in profit or loss (note 8)	**45,648**	6,974
Exchange realignment	**7,233**	(1,387)
As at 31 December	**132,696**	79,815

Asset measured at fair value

	2020			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Investment properties located in PRC	**–**	**–**	**132,696**	**132,696**

	2019			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Investment properties located in PRC	–	–	79,815	79,815

18. INVESTMENT PROPERTIES *(Continued)*

(a) Valuation of investment properties

The investment properties amounted of approximately HK$132,696,000 (2019: HK$79,815,000) of the Group were stated at fair value as at 31 December 2020. The fair value of investment properties as at 31 December 2020 were arrived at based on the valuations carried out by an independent firm of qualified professional valuer, Wuhan Huasheng Zhenghao Assets Appraisal Co., Ltd. (this is the English translation of Chinese name or words which included for identification purposes only). The fair value of investment properties as at 31 December 2019 were assessed by the board of directors based on the obtainable market comparative transactions adjusted with dissimilar nature of the Group's investment properties.

The valuer has valued the properties on the basis of comparable market transactions as available. Discussions of valuation processes and results are held between the Group and valuers at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2020, the fair values of the properties have been determined by the valuer. At each financial year end, the Group (i) verifies all major inputs to the independent valuation report; (ii) holds discussions with the independent valuer.

Market approach method is adopted based on the principle of substitution, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value and capital values.

The valuation assumptions, unless otherwise stated, the valuer assumed that:

(a) The assets within the scope of the assessment are owned by the appraised unit and there is no ownership dispute;

(b) The assessment information provided by the entrusting party and the appraised unit is true, lawful and complete; and

(c) The assessment data collected by the assessors in the capacity range is authentic and credible.

There has been no change from the valuation technique used during the year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The valuation of investment properties is determined by various major inputs:

i. As at 31 December 2020:

The major key inputs applied in valuing the investment properties were market unit sales per each square meter. The range of unit market price were from RMB1,764 to RMB2,801.

Another unobservable input was volume rate of the land use right. The ranges of plot ratio of investment properties were from 3.7 to 4.0. An increase in volume rate would result in increase in the fair value of investment properties.

19. LOAN RECEIVABLES

	2020 HK$'000
Loan receivables:	
Within one year	113,959
Two to five years	46,503
	160,462
Less: allowance for ECL	(827)
Total loan receivables	159,635
Less: Current portion	(45,676)
Non-current portion	113,959

20. INTERESTS IN ASSOCIATES

	2020 HK$'000	2019 HK$'000
Cost of unlisted investments (note)	5,668,961	4,768,615
Share of post-acquisition profits and other comprehensive income	277,292	180,002
Share of net assets of associates	5,946,253	4,948,617
Amounts due from associates	186,813	217,338
	6,133,066	5,165,955

Amounts due from associates are unsecured, interest-free and not repayable/recoverable within next twelve months.

20. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's material associates is set out below:

Shanghai Xudong Haipu Pharmaceutical Company Limited (the "Xudong Haipu")

	2020 HK$'000	2019 HK$'000
Total assets	**2,908,836**	2,379,023
Total liabilities	**(397,210)**	(642,964)
Net assets of the associate	**2,511,626**	1,736,059
Less: Non-controlling interests	**(52,239)**	(41,173)
Net assets attributable to owners of associate	**2,459,387**	1,694,886
Group's share of net assets of the associate	**1,352,663**	932,187
Revenue	**1,212,540**	1,043,013
Profit for the year	**456,205**	444,662
Share of results of an associate for the year	**250,913**	244,564

Grand Pharma Sphere Pte Ltd. (the "Grand Pharma Sphere")

	2020 HK$'000	2019 HK$'000
Total assets	**12,596,769**	10,950,551
Total liabilities	**(5,777,797)**	(5,281,127)
Net assets	**6,818,972**	5,669,424
Group's share of net assets of the associate	**3,341,296**	2,778,018
Revenue	**1,220,699**	1,236,022
Loss for the year	**(94,829)**	(250,062)
Share of results of an associate for the year	**(46,466)**	(122,530)

Aggregate information of associates that are not individually material

	2020 HK$'000	2019 HK$'000
The Group's share of results of associates (note a)	**(142,468)**	(7,072)
The Group's share of net assets of associates	**473,147**	283,135

Note:

(a) The share of results mainly consist of share of loss from OncoSec Medical Incorporated amounted approximately to HK$135,843,000 (based on its management account adjusted under international generally accepted accounting principals).

20. INTERESTS IN ASSOCIATES *(Continued)*

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

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2020	2019		
Yangxin Fuxin (note (a) & (k))	PRC/PRC	Limited liability company	**40.32% (indirect)**	40.32% (indirect)	Contributed capital RMB2,000,000	Production and sales of fine chemicals and chemical medicine
Cardionovum Holding (note (b))	Hong Kong/ Hong Kong	Limited liability company	**33.33% (indirect)**	33.33% (indirect)	Contributed capital USD93,000,000	Development, production and distribution of advanced cardiovascular interventional medical devices and the provision of related services
East Ocean (note (c) & (k))	Hong Kong/ Hong Kong	Limited liability company	**23.69% (direct)**	0.07% (direct)	Issued capital HK$117,000,000/ contributed capital HK$58,500,001	Investment holding
Xudong Haipu (note (d) & (j))	PRC/PRC	Limited liability company	**55.00% (indirect)**	55.00% (indirect)	Contributed capital RMB60,000,000	Production and sales of pharmaceutical preparations for injections
Grand Pharma Sphere (note (e))	Singapore/ Singapore	Limited liability company	**49.00% (indirect)**	49.00% (indirect)	Contributed capital USD100	Investment holding
Revolmmune (note (f) & (k))	PRC/PRC	Limited liability company	**9.68% (indirect)**	–	Issued capital RMB813,447/ contributed capital RMB272,269	Development of colorectal cancer medicine
Nanjing Fuhan (note (g) & (k))	PRC/PRC	Limited liability company	**51.00% (indirect)**	–	Contributed capital RMB40,000,000	Investment holding
Nanjing Kainite (note (h) & (k))	PRC/PRC	Limited liability company	**29.17% (indirect)**	–	Contributed capital RMB3,100,000	Development of Neurological intervention
OncoSec (note (i))	USA/USA	Limited liability company	**43.38% (indirect)**	–	Contributed capital USD2,769	Development of cancer immunotherapy

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.

As at 31 December 2013, the Group held approximately 40.22% equity interest in Yangxin Fuxin and are accounted for the investment as an associate. During the year ended 31 December 2014, the Group had further acquired approximately 0.24% equity interest in Grand Pharm (China) on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the Group's equity interest in Yangxin Fuxin was increased from 40.22% to 40.32%.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(b) Cardionovum Holding was an associate of Grand Wise International Trading Limited, a wholly-owned subsidiary of the Company, and Cardionovum Holding was establish with individual third party. The Company had subscribed for approximately 33.33% of the enlarged issued share capital of the Cardionovum Holding pursuant to an agreement signed on 21 April 2015, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over Cardionovum Holding because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(c) East Ocean was an associate of the Company and East Ocean was establish with a connected person of the Company. The Company had held for 1 out of 1500 issued share capital of the East Ocean as at 31 December 2017. Pursuant to an agreement signed between the Company and the owners of East Ocean in relate to the establishment of East Ocean, the Company will inject not more than 49.9% equity interest of capital into East Ocean within five years, and are accounted for the investment in an associate.

During the year ended 31 December 2020, the Company had contributed approximately HK$27,717,000, which increased the equity interest to 23.69%.

The Group is able to exercise significant influence over East Ocean because it has the power to appoint one out of the three directors of that company under the shareholders agreement.

(d) Xudong Haipu was an associate of Taiwan Tung Yang International Company Limited ("Tung Yang").

On 24 May 2018, the Company entered into the acquisition agreement, the Company had acquired 100% of the Tung Yang shares at aggregate consideration HK$2,004,227,000 which are settled by cash and shares. Upon completion of the acquisition, Tung Yang is directly wholly-owned subsidiary of the Company. Shanghai Xudong Haipu Pharmaceutical Co., Ltd ("Xudong Haipu") and its subsidiaries are classified as associates of the Company after Completion. This is because material decisions of Xudong Haipu (including but not limited to the approval of its annual budget, manufacturing plan and profit distribution policy) are subject to the resolutions of the board of directors of Xudong Haipu which must be passed by at least two-third of its directors in attendance under the articles of association of Xudong Haipu. As the Tung Yang entitled to appoint only four out of the seven directors of Xudong Haipu, the Tung Yang does not have control over the operations and financial management of Xudong Haipu.

The completion of the acquisition took place on 5 September 2018. Details of the acquisition of the Tung Yang are disclosed in the announcement of the Company dated 24 May 2018, 31 July 2018 and 24 August 2018.

Even the Company was holding 55% of shares of Xudong Haipu, since the resolutions requires at least 5 out of 7 directors' approval to pass, where the Company only entitled to appoint 4 directors on the board meeting, the Company does not have control over the associate.

(e) Grand Pharma Sphere was an associate of Grand Decade Developments Limited ("Grand Decade") and it was the immediate holder of Grand Pharma Sphere (Australia BidCo) Pte Ltd. ("BidCo").

On 14 June 2018, the Company entered into the binding scheme implementation deed pursuant to which CDH Genetech Limited ("CDH Genetech") and the Company had acquired 100% of the Sirtex Medical Pty Ltd. (formerly named Sirtex Medical Ltd.) ("Sirtex") shares. The Company and CDH Genetech had established BidCo to acquire the Sirtex shares and paid aggregate consideration HK$2,907,725,000. Upon completion of the acquisition, the Company and CDH Genetech owned 49% and 51% of the issued shares capital of the BidCo respectively. The completion of the acquisition took place on 20 September 2018. Details of the acquisition of the BidCo are disclosed in the announcement of the Company dated 14 June 2018, 26 July 2018, 20 September 2018 and 12 March 2019.

On 4 May 2020, the Group entered into a subscription agreement with CDH Genetech pursuant to which the Group and CDH Genetech (or its nominee) will further subscribe shares of Grand Pharma Sphere in proportion to their respective equity interests. The total consideration for the further subscription is approximately HK$1,163,571,000 and the Group and CDH Genetech will invest for approximately HK$570,150,000 and HK$593,421,000 respectively.

Details of the further subscription of the Grand Pharma Sphere was disclosed in the announcement of the Company dated 4 May 2020.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(f) Revolmmune Therapeutics Co., Ltd. ("Revolmmune") was an associate of Grand Pharm (China). The Company had subscribed for approximately 9.68% of issued share capital of the Revoimmune pursuant to an agreement signed on 13 July 2020, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over Revolmmune because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(g) Nanjing Fuhan Enterprise Management Partnership (Limited Partnership) ("Nanjing Fuhan") was an associate of the Company and Nanjing Fuhan was establish with Xudong Haipu which was another associate of the Company. The Company had held 51% of issued share capital of the Nanjing Fuhan as at 31 December 2020.

Even the Company was holding 51% of shares of Nanjing Fuhan, since the resolutions requires over 50% of the total number of directors (2 directors in total) to pass, where the Company only entitled to appoint 1 director on the board meeting, the Company does not have control over the associate.

(h) Nanjing Kainite Medical Technology Co., Ltd. ("Nanjing Kainite") was an associate of Grand Pharm (China). The Company had subscribed for approximately 29.17% of issued share capital of the Nanjing Kainite on 27 July 2020. Pursuant to an agreement, the Company will inject and acquire to 100% equity interest of capital into Nanjing Kainite in phases if the conditions are met, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over Nanjing Kainite because it has the power to appoint one out of the three directors of that company under the shareholders agreement.

(i) OncoSec Medical Incorporated ("OncoSec") was an associate of Grand Decade Developments Limited ("Grand Decade").

On 10 October 2019, the Company entered stock purchase agreement and the stockholders agreement. The Company had acquired approximately of 43.95% of the issued shares capital of the OncoSec at aggregate consideration for approximately HK$193,929,000 which are settled by cash. The completion of the acquisition took place on 7 February 2020. Details of the acquisition of the OncoSec are disclosed in the announcement of the Company dated 10 October 2019, 26 November 2019 and 7 February 2020.

Since OncoSec has announced offering of common stock of an aggregate 4,608,589 shares of USD$3.25 per share on 16 August 2020. The Company had acquired 1,999,000 of new placing of shares at aggregate consideration for approximately HK$50,396,000.

As at 31 December 2020, the Group's equity interest in OncoSec had decreased from 43.95% to 43.38%.

The Group is able to exercise significant influence over OncoSec because it has the power to appoint three out of the nine directors of that company under the shareholders agreement.

(j) Xudong Haipu is wholly owned foreign enterprises.

(k) These companies are wholly-domestic owned enterprises.

The above table lists associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

21. GOODWILL

	HK$'000
As at 1 January 2019	487,848
Exchange realignment	(7,527)
As at 31 December 2019 and 1 January 2020	480,321
Exchange realignment	25,253
As at 31 December 2020	**505,574**

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

- Zhejiang Jianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")
- Wuhan Kernel Bio-tech Co., Ltd. ("Wuhan Kernel")
- Hubei Wellness Pharmaceutical Co., Ltd. ("Hubei Wellness")
- Beijing Rui Yao Technology Limited ("Beijing Rui Yao")
- Beijing Jiu He Pharmaceutical Limited ("Jiu He")
- Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming")
- Xi'an Beilin Pharmaceutical Co., Ltd. ("Xi'an Beilin")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2020 HK$'000	2019 HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**16,597**	15,666
Hubei Wellness	**23,945**	22,603
Beijing Rui Yao	**25,572**	24,139
Jiuhe	**190,589**	179,909
Tianjin Jingming	**64,569**	60,951
Xi'an Beilin	**129,358**	122,109
	505,574	480,321

21. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes:

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 18% (2019: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2019: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 16% (2019: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2019: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2019: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2019: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 18% (2019: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2019: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

21. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes: *(Continued)*

Jiuhe

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2019: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2019: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets (note 23) are allocated, no impairment loss was recognised.

Tianjin Jingming

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% (2019: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2019: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets (note 23) are allocated, no impairment loss was recognised.

Xi'an Beilin

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2019: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2019: 3%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets (note 23) are allocated, no impairment loss was recognised.

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 3% (2019: 3%) of market share per year. The values assigned to the assumption reflect past experience and are consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

22. PARTICULAR OF SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2020 and 2019 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2020	2019		
Grand Pharm (China) (notes (iv), (vi), (vii), (viii) & (xxvii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.18% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (notes (ii), (viii), (xvi), (xxiv) and (xxvi))	PRC/PRC	Limited liability company	**87.69% (indirect)**	84.76% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (notes (viii) and (xx))	PRC/PRC	Limited liability company	**89.60% (indirect)**	89.60% (indirect)	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Zhejiang Xianle (note xxvii)	PRC/PRC	Limited liability company	**67.00% (indirect)**	67.00% (direct)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (notes (iii), (viii) , (xvi) and (xvii))	PRC/PRC	Limited liability company	**91.56% (indirect)**	91.56% (indirect)	Contributed capital RMB79,200,000	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.90% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2020	2019		
Beijing Rui Yao (notes (x) & (xii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB23,901,750	Investment holding
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajin") (notes (viii), (x) & (xii))	PRC/PRC	Limited liability company	**71.88% (indirect)**	71.88% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the PRC
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB1,000,000	Treatment of sewage in the PRC
Jiuhe (note (xiii))	PRC/PRC	Limited liability company	**96.84% (indirect)**	96.84% (indirect)	Contributed capital RMB20,000,000	Manufacture and sales of capsules, pharmaceutical intermediates, tablets, granules and soft capsules in the PRC
Tianjin Jingming (note (xiv))	PRC/PRC	Limited liability company	**73.18% (indirect)**	73.18% (indirect)	Contributed capital RMB1,000,000	Research and development, manufacture and sales of ophthalmic medical devices and disposal surgical product
Zhu Hai Cardionovum Medical Device Co. Ltd. ("Zhu Hai Cardionovum") (note (xv))	PRC/PRC	Limited liability company	**77.89% (indirect)**	77.89% (indirect)	Contributed capital USD1,000,000	Development, manufacture and sales of ophthalmic medical devices
Xi'an Beilin (note (xvii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB27,800,000	Manufacture and sales of Chinese medicine and health food product
Grand Decade (note (xxii))	BVI/BVI	Limited liability company	**100% (direct)**	100% (direct)	Contributed capital HKD78,000	Investment holding
Tung Yang (note (xxiii))	Hong Kong/ Hong Kong	Limited liability company	**100% (direct)**	100% (direct)	Contributed capital USD2,944,611	Investment holding
Beijing Kun Wu International Business Limited ("Beijing Kun Wu") (note (xxv))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB18,000,000	Land holding

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes:

(a) Detail of subsidiaries

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010.

During the year ended 31 December 2010, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

(v) Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 22 November 2012. The effective equity interest in Hubei Wellness held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB136.40 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.06 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(viii) Pursuant to share transfer agreement dated on 10 October 2014, Grand Pharm (China) had increased the paid-up capital to RMB470,000,000. The Group had paid RMB285,000,000 during the year ended 2014. After the payment of additional paid-up capital, the Group further acquired approximately 0.24% equity interest in Grand Pharm (China) at the consideration of RMB1.134 million (representing approximately RMB4.725 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the equity interest held by the Group in Grand Pharm (China) was approximately 99.84%. As a result of the acquisition detail on notes (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 98.94% to 99.18%; Wuhan Grand Hoyo was increased from 62.15% to 62.30%; Hubei Fuchi was increased from 82.09% to 82.29%; Hubei Grand EBE was increased from 99.60% to 99.84%, Wuhan Kemel was increased from 80.70% to 80.90%. Hubei Wellness was increased from 99.60% to 99.84%; Huangshi Feiyun was increased from 59.76% to 59.90% and Beijing Huajin was increased from 50.80% to 50.92%.

(ix) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Huangshi Feiyun. The effective equity interest in Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(x) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao acquisition, Grand Pharm (China) will own approximately 70.56% equity interest in Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(xi) The Group established and owned 99.84% equity interest in Fuchi Water. The effective equity interest in Fuchi Water held by the Group is 99.84% on 30 September 2014.

(xii) Pursuant to an agreement dated 11 December 2014, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 29.16% equity interest in Beijing Rui Yao on 1 January 2015. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao additional acquisition, the Group will own approximately 99.84% equity interest in Rui Yao and approximately 71.88% equity interest in Beijing Huajin indirectly through Rui Yao.

(xiii) Pursuant to an agreement dated 17 July 2015, Grand Pharm (China) entered into an agreement with Ningbo CDH Jinxiu Investment Management Company Limited (the "Ningbo CDH") to acquire 67.00% equity interest in Jiuhe on 31 July 2015 and upon completion of Jiuhe acquisition, the Group will own approximately 66.89% equity interest in Jiuhe.

During the year ended 2015, a further 30.00% equity interest in Jiuhe was acquired by Grand Pharm (China). As a result, the effective equity interest in Jiuhe held by the Group was increased from 66.89% to 96.84%.

(xiv) Pursuant to an agreement dated 22 December 2014, Grand Pharm (China) entered into an agreement with Wu Liang and Fan Li Jin to acquire 73.30% equity interest in Tianjin Jingming on 1 January 2015. The effective equity interest in Tianjin Jingming held by the Group is 73.18% on 1 January 2015.

(xv) The Group established and owned 77.89% equity interest in Zhu Hai Cardionovum. The effective equity interest in Zhu Hai Cardionovum held by the Group is 77.89% on 9 October 2015.

(xvi) During the year ended 31 December 2016, the Group increase effective equity interest by 13.44% in Huang Gang Fuchi Pharmaceutical Co., Ltd. from the non-controlling interests at consideration of three subsidiaries shares of 2.59% in Wuhan Grand Hoyo; 2.11% in Wuhan Kemel and 3.47% in Hubei Grand Bio-technology Limited.

(xvii) During the year ended 31 December 2016, the Group acquired additional 1.55% and 16.05% equity interest in Wuhan Kernel from the non-controlling interests of Wuhan Kernel at a cash consideration of RMB3,000,000 and RMB20,180,000 (approximately HK$3,362,000 and HK$22,614,000). The Group recognised an decrease in non-controlling interests and decrease in other reserve of approximately HK$28,165,000 and HK$2,059,000 respectively.

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xviii) Pursuant to an agreement dated 29 June 2016, Grand Pharm (China) entered into an agreement with independent third parties to acquire 77.21% equity interest in Xi'an Beilin on 13 July 2016. Xi'an Beilin also owing 100%, 100% and 79% equity interest in Shenxi Xin Beilin Medical Company Limited (the "Shenxi Xin Beilin"), Xi'an Hanyuan Shiye Company Limited (the "Xi'an Hanyuan Shiye") and Xi'an Beilin Biological Technology Company Limited (the "Xi'an Beilin Biological") without any encumbrances and potential disputes, and upon completion of Xi'an Beilin acquisition, the Group will own approximately 77.09% equity interest in Xi'an Beilin and approximately 77.09%, 77.09% and 60.91% equity interest in Shenxi Xin Beilin, Xi'an Hanyuan Shiye and Xi'an Beilin Biological indirectly through Xi'an Beilin. During the year ended 31 December 2016, the Group derecognised Xi'an Beilin Biological Technology.

During the year ended 31 December 2017, Grand Pharm (China) acquire additional 22.79% equity interest in Xi'an Beilin from the non-controlling interests of Xi'an Beilin at a cash consideration of RMB131,512,000 (approximately HK$151,606,000), and upon completion of the further acquisition, the Group will own approximately 99.84% equity interest in Xi'an Beilin and approximately 99.84% and 99.84% equity interest in Shenxi Xin Beilin and Xi'an Huanyuan Shiye indirectly through Xi'an Beilin. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$113,123,000 and HK$38,484,000 respectively.

(xix) During the year ended 31 December 2017, Wuhan Kernel had increased the contributed capital to RMB79,200,000. After the payment of additional of contributed capital, Grand Pharm (China) disposed 4.9% equity interest in Wuhan Kernel to independent third party at a cash consideration of RMB12,740,000 (approximately HK$14,687,000). Upon the completion of the partial disposal, the Group will own approximately 91.56% equity interest in Wuhan Kernel indirectly. The Group recognised an increase in non-controlling interests and increase in other reserve of approximately HK$5,832,000 and HK$8,853,000 respectively.

(xx) During the year ended 31 December 2017, Grand Pharm (China) acquire additional approximately 7.32% equity interest in Hubei Fuchi from the non-controlling interests of Hubei Fuchi at a cash consideration of approximately RMB11,679,000 (approximately HK$13,463,000), and upon completion of the further acquisition, the Group will own approximately 89.60% equity interest in Hubei Fuchi. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$7,506,000 and HK$5,957,000 respectively. As a result of the acquisition, the Group's equity interest in Wuhan Grand Hoyo was increased from 59.71% to 60.80%; and Hubei Fuchi was increased from 82.29% to 89.60%.

(xxi) During the year ended 31 December 2018, the Company establish Grand Decade for the purpose of acquiring associate, Grand Pharma Sphere.

(xxii) During the year ended 31 December 2018, the Company acquire 100% equity interest in Tung Yang at aggregate consideration HK$2,004,227,000. Upon completion, Xudong Haipu becomes an associate of the Company.

(xxiii) Pursuant to an agreement dated 20 November 2019, the Group acquired additional of 24.6% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB73,724,700 (approximately HK$83,630,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 84.76%. The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$77,803,000 and HK$5,827,000 respectively.

(xxiv) During the year ended 31 December 2019, Grand Pharm (China) entered into an agreement with 北京瑞雅科國際企業管理有限公司 to acquire 100% equity interest in Beijing Kun Wu. The effective equity interest in Beijing Kun Wu held by the Group is 99.84% upon the completion of the acquisition on 1 May 2019.

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xxv) Pursuant to an agreement dated 16 July 2020, the Group acquired additional of 3.0% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB8,990,800 (approximately HK$10,102,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 87.69%.

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

(xxvii) These companies are foreign and domestic owned enterprises.

(xxviii) Except the companies listed in note (xxvii), all other companies incorporated and operating in PRC are wholly domestic owned enterprises.

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of Company	Place of incorporation/ registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profits allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
Wuhan Grand Hoyo	PRC/PRC	12.31%	15.24%	11,463	7,477	50,638	47,755

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

22. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Wuhan Grand Hoyo and its subsidiaries

	2020 HK$'000	2019 HK$'000
Current assets	**427,423**	293,317
Non-current assets	**58,891**	58,947
Current liabilities	**(72,856)**	(36,444)
Non-current liabilities	**(2,098)**	(2,468)
Equity attributable to owners of the Company	**360,722**	265,597
Non-controlling interests	**50,638**	47,755
Revenue	**640,376**	554,101
Other revenue and income	**9,780**	4,450
Expenses	**(574,938)**	(509,489)
Profit for the year	**75,218**	49,062
Profit attributable to owners of the Company	**63,755**	41,585
Profit attributable to non-controlling interests	**11,463**	7,477
Total comprehensive income for the year	**99,738**	45,646
Total comprehensive income attributable to owners of the Company	**84,538**	38,690
Total comprehensive income attributable to non-controlling interests	**15,200**	6,956
Dividend paid to non-controlling interest	**–**	–
Net cash inflow from operating activities	**72,947**	20,111
Net cash outflow from investing activities	**(39,834)**	(5,758)
Net cash inflow/(outflow) from financing activities	**33,919**	(629)
Effect of foreign exchange rate charges	**11,246**	(2,272)
Net cash inflow	**78,278**	11,452

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

(c) Change in ownership interests in Wuhan Grand Yoho and its subsidiaries

During the year, the Group acquired 2.92% effective equity interests of from a non-controlling shareholder which is holding 3% equity interests of Wuhan Grand Yoho and its subsidiaries pursuant to an equity transfer agreement at a cash consideration of RMB8,990,800 (approximately HK$10,102,000).

23. INTANGIBLE ASSETS

	Pharmaceutical technology HK$'000	Patent, trademark and capitalised development cost HK$'000	Acquired patent rights HK$'000	Total HK$'000
Cost				
As at 1 January 2019	7,195	760,944	113,700	881,839
Addition	–	–	1,148	1,148
Exchange realignment	(125)	(13,231)	(2,023)	(15,379)
As at 31 December 2019 and 1 January 2020	7,070	747,713	112,825	867,608
Addition	–	–	49,560	49,560
Exchange realignment	419	44,389	9,409	54,217
As at 31 December 2020	7,489	792,102	171,794	971,385
Accumulated amortisation and impairment loss				
As at 1 January 2019	1,289	–	64,552	65,841
Provided for the year	358	–	7,947	8,305
Exchange realignment	(27)	–	(1,234)	(1,261)
As at 31 December 2019 and 1 January 2020	1,620	–	71,265	72,885
Provided for the year	355	–	11,305	11,660
Exchange realignment	113	–	4,884	4,997
As at 31 December 2020	2,088	–	87,454	89,542
Net carrying amounts				
As at 31 December 2020	**5,401**	**792,102**	**84,340**	**881,843**
As at 31 December 2019	5,450	747,713	41,560	794,723

The economic useful life of recognised intangible assets are as follows:

Intangible assets	Economic useful life
Pharmaceutical technology	20 years
Acquired patent rights	5 years–7 years
Patents, trademarks and capitalised development cost	indefinite useful lives

The patents and trademarks will expire in the coming two to five years and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the patents and trademarks and consider that the possibility of failing in renewal is remote and the patents and trademarks will generate net cash flows for the Group for an indefinite period. Therefore, the patents and trademarks are treated as having an indefinite useful life.

23. INTANGIBLE ASSETS *(Continued)*

The carrying amount of intangible assets were allocated to CGU as follow:

	2020 HK$'000	2019 HK$'000
Jiuhe	**533,740**	503,830
Tianjin Jingming	**55,590**	52,474
Xi'an Beilin	**202,772**	191,409
	792,102	747,713

For the purposes of impairment testing, goodwill, patents and trademarks above have been allocated to the acquired cash generating units, details of impairment assessment was set out in note 21. During the years ended 31 December 2020 and 2019, the management of the Group determines that there is no impairment need of any of its CGUs containing goodwill, patents and trademarks.

24. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	ECL provision HK$'000	Impairment loss on trade and other receivables HK$'000	Total HK$'000
As at 1 January 2019	13,111	1,179	14,290
Charge to profit or loss	7,087	(1,175)	5,912
Exchange realignment	(326)	(4)	(330)
As at 31 December 2019 and 1 January 2020	19,872	–	19,872
Charge to profit or loss	3,898	–	3,898
Exchange realignment	1,392	–	1,392
As at 31 December 2020	**25,162**	**–**	**25,162**

As at 31 December 2020, the Group has unused tax losses of approximately HK$213,821,000 (2019: HK$166,161,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$213,821,000 (2019: HK$166,161,000) due to the unpredictability of future profit streams.

25. PREPAYMENTS

The amount represented prepayment of AUD25,000,000 (equivalent to approximately HK$193,762,000) and RMB82,556,000 (equivalent to approximately HK$97,832,000) (2019: RMB87,106,000 (equivalent to approximately HK$97,439,000)) paid to certain third party pharmaceutical institutes located in the PRC and Australia (2019: PRC) for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK$'000	2019 HK$'000
Listed equity security in HK (note (a))	**34,999**	38,332
Listed equity security in Australia (note (a))	**462,067**	–
Investment at fair value (note (b))	**23,701**	33,559
	520,767	71,891

Notes:

(a) Fair value was determined with reference to quoted market bid prices.

(b) As at 31 December 2020 and 2019, the Group's investment in wealth management products were designed at financial assets at fair value through profit or loss of which fair values are determined by reference to the quoted market bid prices available on the relevant PRC market.

The financial assets at fair value through profit or loss were classified as level 1 of fair value hierarchy.

27. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	**249,803**	146,785
Work-in-progress	**364,484**	350,371
Finished goods	**341,027**	317,217
	955,314	814,373

28. TRADE AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables, net	815,265	897,991
Bills receivables	692,807	497,866
Prepayments	259,157	194,292
Deposits paid	–	469
Other tax receivables	47,334	38,524
Other receivables, net	79,597	69,666
	1,894,160	1,698,808

The Group generally allows a credit period of 30–180 days (2019: 30–180 days) to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	2020 HK$'000	2019 HK$'000
Trade receivables	922,892	998,185
Less: allowance for ECL	(107,627)	(100,194)
Total trade receivables	815,265	897,991

The ageing analysis of the trade receivables is as follows:

	2020 HK$'000	2019 HK$'000
Within 90 days	631,810	773,517
91–180 days	106,230	84,724
181–365 days	77,225	39,750
	815,265	897,991

	2020 HK$'000	2019 HK$'000
Other receivables	122,850	102,368
Less: allowance for ECL	(43,253)	(32,702)
Total other receivables	79,597	69,666

28. TRADE AND OTHER RECEIVABLES *(Continued)*

Allowance for ECL in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balances directly.

The Group does not hold any collated or other credit enhancement over its trade and other receivables balances. Trade and other receivables are non-interest bearing.

The Directors considered that the residual amounts of trade and other receivables are fully recoverable and no provision for impairment.

29. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2020 HK$'000	2019 HK$'000
Cash in banks	**1,836,692**	1,059,248
Cash on hand	**3**	21
	1,836,695	1,059,269

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	2020 HK$'000	2019 HK$'000
HK$	**87,938**	165
USD	**38,547**	36,801
Australian dollars (the "AUD")	**451**	33
Euro dollars (the "EURO")	**2,412**	2,201
RMB	**1,707,347**	1,020,069
	1,836,695	1,059,269

As at 31 December 2020, bank deposits of approximately HK$30,910,000 (2019: HK$121,285,000) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2020, the annual effective interest rate on pledged bank deposits is 1.14% (2019: 1.18%).

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

30. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 HK$'000	2019 HK$'000
Unlisted securities:		
— Unlisted equity securities (note)	**171,164**	95,025

Note:

As at 31 December 2020 and 2019, the fair value of the unlisted equity securities was arrived on the basis of valuations carried out by an independent professional valuer, details of movements are set out in note 5(b)(vi).

31. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2020 HK$'000	2019 HK$'000
Trade payables	**400,142**	355,171
Bills payables	**262,346**	479,122
Accruals and other payables	**1,321,868**	1,131,307
Other tax payables	**155,096**	60,596
Total	**2,139,452**	2,026,196
Contract liabilities (note a)	**269,049**	305,558

Note:

(a) Contract liabilities in relation to sales of finished goods are expected to be settled within one year. The entire amount of contract liabilities as at 1 January 2020 is all recognised as revenue during current year.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2020 HK$'000	2019 HK$'000
Within 90 days	**237,868**	237,118
Over 90 days	**162,274**	118,053
	400,142	355,171

The average credit period on purchases of goods is 90 days.

The bills payables are mature within 180 days from the end of the reporting period.

32. BANK AND OTHER BORROWINGS

	2020 HK$'000	2019 HK$'000
Bank borrowings (secured)	**2,345,686**	2,010,162
Other borrowing (unsecured)	**21,330**	20,135
	2,367,016	2,030,297
Carrying amount repayable:		
On demand or within one year	**1,568,454**	967,607
More than one year but not exceeding two years	**212,355**	824,983
More than two years but not more than five years	**586,207**	237,707
	798,562	1,062,690
	2,367,016	2,030,297

As at 31 December 2020 and 2019, certain bank loans are guaranteed by China Grand Enterprises Incorporation, a related company with common controlling shareholder of the Company, and secured by the plant and machinery, buildings, right-of-use assets and pledged bank deposits of the Group in the PRC as detailed in note 42.

On 21 August 2020, the Group has borrowed secured bank borrowings of HK$700,000,000 that were charged at fixed interest rate of 1.4% plus HIBOR, except that all other bank loans and other borrowings of the Group are denominated in RMB.

As at 31 December 2019, all other bank loans and other borrowings of the Group are denominated in RMB.

As at 31 December 2020 and 2019, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of approximately HK$1,199,842,000 (2019: HK$1,221,534,000) that were charged at fixed interest rate of 2.60% to 6.89% (2019: 2.92% to 6.89%) per annum, all other bank loans bear variable interest rates from 2.85% to 6.09% (2019: 4.74% to 5.23%) per annum.

The Group has borrowed unsecured other borrowings of approximately HK$21,330,000 (2019: HK$20,135,000) from Huangshi Zhongbang City Housing Investment Co., Ltd, independent third party, during the years ended 31 December 2020 and 2019.

33. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the current reporting periods and at the date of transition of HKFRS 16:

	As at 31 December 2020		As at 31 December 2019	
	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**6,200**	**7,589**	22,621	24,833
After 1 year but within 2 years	**4,959**	**5,966**	3,376	4,181
After 2 years but within 5 years	**6,594**	**7,755**	4,283	5,330
After 5 years	**3,609**	**5,343**	4,269	6,170
	15,162	**19,064**	11,928	15,681
	21,362	**26,653**	34,549	40,514
Less: total future interest expenses		**(5,291)**		(5,965)
Present value of lease obligations		**21,362**		34,549

Analysed for reporting purposes as:

	As at 31 December 2020 HK$'000	As at 31 December 2019 HK$'000
Current liabilities	**6,200**	22,621
Non-current liabilities	**15,162**	11,928
	21,362	34,549

The carrying amount of the lease liabilities approximate their fair value. As at 31 December 2020, the Group has leased property, plant and equipment under lease liabilities with net book value of approximately HK$149,624,000.

34. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

Details of amounts due from related companies are as follows:

	Balance at 31 December	
Name of related companies (note (a)):	**2020**	2019
	HK$'000	HK$'000
Amounts due from related companies under common control of members of the shareholder of the Group		
Baoding Jiufu Biochemical Company Limited	**28,900**	28,607
Jiangsu Grand Xinyi Pharmaceutical Company Limited	**14,944**	20,360
Huadong Medicine Co. Ltd	**1,481**	3,879
Guangdong Leiyunshang Pharmaceutical Company Limited	**816**	755
Henan Grand Biologic Pharmaceutical Inc.	**–**	373
Huadong Medicine Company Limited, Medicine Branch	**213**	201
Huadong Medicine(Lishui) Company Limited	**93**	87
Shenyang Yaoda Leiyunshang Pharmaceutial Company Limited	**45**	42
Huadong Medicine (Xi'An) Bohua Pharmaceutical Company Limited	**124**	22
Grand Bay Hotel Beijing	**19**	–
Hangzhou Grand Biologic Pharmaceutical Inc	**123**	–
	46,758	54,326
Less: allowance for ECL	**(11,322)**	(3,629)
	35,436	50,697

Note:

(a) The name of related companies are English translation of Chinese name or words which included for identification purpose only and should not be regarded as the official English name or official translation of such Chinese name or words.

34. AMOUNTS DUE FROM/(TO) RELATED COMPANIES *(Continued)*

Details of impairment assessment as at 31 December 2020 are set out in note 5(b)(iv).

The Group had policy regarding impairment losses on amounts due from related parties which was based on the evaluation of collectability and on the management's judgement including the current creditworthiness and the past collection history of each related party.

Members of the shareholder of the Group have controlling interests over the related companies.

The amounts due from/(to) related companies are unsecured, interest-free and recoverable/repayable on demand.

35. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Intangible assets	Property, plant and equipment and right-of-use assets	Investment properties	Convertible bonds	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2019	133,638	33,773	9,428	2,173	179,012
Credited to profit or loss (note 11)	(483)	(1,807)	–	(1,685)	(3,975)
Credited to equity	–	–	–	(488)	(488)
Exchange realignment	(2,317)	(562)	(164)	–	(3,043)
As at 31 December 2019 and 1 January 2020	130,838	31,404	9,264	–	171,506
Charged/(credited) to profit or loss (note 11)	(655)	(1,784)	2,236	–	(203)
Exchange realignment	8,131	1,795	650	–	10,576
As at 31 December 2020	**138,314**	**31,415**	**12,150**	**–**	**181,879**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$349,296,000 (2019: approximately HK$272,677,000) 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.

36. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

As at 31 December 2020 and 2019, the amount is unsecured, interest-free and repayable on demand.

37. DEFERRED INCOME

The movement of deferred income is set out below:

	HK$'000
As at 1 January 2019	595,894
Compensation received during the year (notes (b) and (c))	22,615
Credit to profit or loss	(142,001)
Exchange realignment	(9,895)
As at 31 December 2019 and 1 January 2020	466,613
Compensation received during the year (note (b) and (d))	14,853
Credit to profit or loss	(163,504)
Exchange realignment	23,644
As at 31 December 2020	**341,606**

Notes:

(a) On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(i) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(ii) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

37. DEFERRED INCOME *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

(iii) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. During the year ended 31 December 2014, RMB58,500,000 (equivalent to approximately HK$73,629,000) was received by Grand Pharm (China).

(iv) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China). During the year ended 31 December 2014, RMB171,000,000 (equivalent to approximately HK$215,219,000) was received by Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the years ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the years ended 31 December 2012, the Group did not receive any Compensation. During the years ended 31 December 2013 and 2014, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) and RMB229,500,000 (equivalent to approximately HK$288,848,000) respectively.

During the year ended 31 December 2019, Grand Pharm (China) received one of the construction completion reports to verify partially the completion of the Relocation. Therefore, during the year ended 31 December 2019 and 2020 the Group recognised approximately RMB21,721,000 (equivalent to approximately HK$24,639,000) related to depreciable assets over their useful life and approximately RMB103,272,000 (equivalent to approximately HK$117,147,000) in regards to relevant loss or expenses which were unable to identified and deferred until completion of the Relocation.

During the year ended 31 December 2020, Wuhan Wuyao received one of the construction completion reports to verify partially the completion of the Relocation. Therefore, the Group recognised approximately RMB20,464,000 (equivalent to approximately HK$22,994,000) related to depreciable assets over their useful life and approximately RMB101,910,000 (equivalent to approximately HK$114,509,000) in regards to relevant loss or expenses which were unable to identified and deferred until completion of the Relocation.

37. DEFERRED INCOME *(Continued)*

Notes: *(Continued)*

(b) On 18 January 2018, Wuhan Kernel entered into an agreement with The People's Government of Xiantao which provides for detailed provisions as to promote economic development of Xiantao and expand its operation scale. The compensation, as mutually agreed between Wuhan Kernel and The People's Government of Xiantao, amounts to RMB18,936,900 (equivalent to approximately HK$21,481,000). The acquisition of land right use was finished at 29 July 2019, the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2019 based on 50 years useful lives of the land use right.

During the year ended 31 December 2020, the compensation, as mutually agreed between Wuhan Kernel and The People's Government of Xiantao, amounts to RMB1,108,000 (equivalent to approximately HK$1,245,000). The compensation was recognised in the statement of profit or loss started from 31 December 2020 based on remaining years of useful lives of the land use right.

(c) On 20 September 2019, Jiuhe entered into an agreement with Beijing Fangshan District Association for Science and Technology which provides for research and development expenditure allowance, amounting to RMB1,000,000 (equivalent to approximately HK$1,134,000). As at 31 December 2019, the Company did not achieve all consideration and obtain the approval from the PRC Government.

(d) On 20 September 2019, Wuhan Wuyao entered into an agreement with The People's Government of Xiantao which provides for land bidding. The compensation, as mutually agreed between Wuhan Wuyao and The People's Government of Xiantao, amounts to RMB12,111,000 (equivalent to approximately HK$13,608,000). The acquisition of land right use was finished at 29 May 2020, the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2020 over useful lives of the land right use.

38. SHARE CAPITAL

	Number of shares at		Share capital at	
	31 December 2020 '000	31 December 2019 '000	**31 December 2020 HK$'000**	31 December 2019 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
As at 1 January 2020 and 2019	**3,377,571**	3,134,825	**33,776**	31,348
Exercise of convertible bond (note (a))	**–**	222,222	**–**	2,222
Issued under subscription (note (b))	**172,000**	20,524	**1,720**	206
As at 31 December 2020 and 2019	**3,549,571**	**3,377,571**	**35,496**	**33,776**

Notes:

(a) On 3 June 2019, the Company issued of ordinary shares to the convertible bond holder of 222,222,222 shares of par value HK$0.01 as a result of the conversion of bond with principal amount of HK$300,000,000.

(b) On 10 August 2020, the Company placed to placing agent of 172,000,000 shares of par value HK$0.01 each at placing price of HK$5.90 for total consideration. The net proceeds from the placing, after deducting the placing commission and the related fees and expenses, amount to approximately HK$1,013,600,000. The proceeds mainly be used in research and development projects, expansion of research team and investment in technology.

39. ACQUISITION OF ASSETS

During the year ended 31 December 2019, Grand Pharm (China), a subsidiary of the Company, entered into sale and purchase agreements with 北京瑞雅科國際企業管理有限公司 to acquire 100% equity interest in Beijing Kun Wu.

Beijing Kun Wu was holding construction in progress ("CIP") and land right use in PRC and as at the date of acquisition, Beijing Kun Wu did not carry out any significant business transactions except for holding CIP and land night use in PRC.

The above acquisitions in respect of Beijing Kun Wu has been accounted for by the Group as acquisition of assets as the entities acquired by the Group do not constitute a business.

Pursuant to the relevant sale and purchase agreements in respect of the acquisition of Beijing Kun Wu, the aggregate consideration for Beijing Kun Wu was adjusted to RMB18,000,000 (equivalent to approximately HK$20,633,000) based on the net asset values of Beijing Kun Wu as at 1 May 2019 (date of acquisition). The net assets acquired by the Group in the above transactions are as follows:

	2019 HK$'000
Fair value of net assets acquired:	
Property, plant and equipment (note 16)	25,645
Right-of-use assets (note 17)	31,224
Bank balances	14
Trade and other payables	(36,250)
	20,633
Satisfied by:	
Cash	20,633

An analysis of the cash flows in respect of the acquisition of the entity is as follows:

	2019 HK$'000
Cash consideration	20,633
Bank balances acquired	(14)
Net cash outflow in respect of the acquisition of a subsidiary that are not constitute business	20,619

40. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2020 HK$'000	2019 HK$'000
Non-current assets		
Interests in associates	**3,000,238**	2,977,123
Interests in subsidiaries	**3,736,972**	2,973,454
Right-of-use assets	**3,776**	490
Loan receivables	**113,959**	–
	6,854,945	5,951,067
Current assets		
Financial assets at fair value through profit or loss	**34,999**	38,332
Loan receivables	**45,676**	–
Other receivables	**7,066**	1,403
Cash and cash equivalents	**98,706**	26,573
	186,447	66,308
Current liabilities		
Lease liabilities	**1,594**	383
Financial guarantee	**29**	–
Other payables	**4,205**	16,839
	5,828	17,222
Net current assets	**180,619**	49,086
Total assets less current liabilities	**7,035,564**	6,000,153
Non-current liabilities		
Amount due to the immediate holding company	**2,331**	3,402
Financial guarantee	**427**	–
Lease liabilities	**2,102**	–
	4,860	3,402
Net assets	**7,030,704**	5,996,751
Capital and reserves attributable to owners of the Company		
Share capital	**35,496**	33,776
Reserves	**6,995,208**	5,962,975
Total equity	**7,030,704**	5,996,751

The financial statement was approved and authorised for issue by the board of directors of the Company on 17 March 2021 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

40. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

(Continued)

Profit and total comprehensive

	Share premium	Contributed surplus	Convertible Bonds reserve	Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2019	5,052,102	121,273	65,979	293,905	5,533,259
Profit and total comprehensive profit for the year	–	–	–	327,161	327,161
Total comprehensive profit for the year	–	–	–	327,161	327,161
Conversion of convertible bond	356,594	–	–	–	356,594
Issue under subscription	102,411	–	–	–	102,411
Equity components of convertible bond	–	–	(65,979)	–	(65,979)
Dividend paid (note 13)	–	–	–	(290,471)	(290,471)
As at 31 December 2019 and 1 January 2020	5,511,107	121,273	–	330,595	5,962,975
Profit and total comprehensive profit for the year	–	–	–	344,536	344,536
Total comprehensive profit for the year	–	–	–	344,536	344,536
Issue under subscription	1,011,942	–	–	–	1,011,942
Dividend paid (note 13)	–	–	–	(324,245)	(324,245)
As at 31 December 2020	**6,523,049**	**121,273**	**–**	**350,886**	**6,995,208**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

41. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associates as disclosed in note 20, related companies as disclosed in note 34 and immediate holding company as disclosed in note 36 during the years ended 31 December 2020 and 2019, the Group entered into following transactions with its related parties:

	2020 HK$'000	2019 HK$'000
Interest charged to the Group by immediate holding company (note (i), note 10)	–	21
Sales of goods to Yangxin Fuxin (note (ii))	3,423	2,861
Purchases of goods from Yangxin Fuxin (note (ii))	15,297	15,125
Sales of goods to the companies with common controlling shareholder:		
Huadong Medicine Co. Ltd and its related companies (note (iii))	116,469	145,941
中國遠大集團有限責任公司 and its related companies (unofficially translated as "China Grand Enterprises Incorporation" (note (iii))	2,875	4,838
Purchase of goods from the companies with common controlling shareholder:		
Baoding Jiufu Biochemical Company Limited (note (iv))	20,190	11,406
Processing services from the companies with common controlling shareholder:		
Baoding Jiufu Biochemical Company Limited (note (iv))	1,332	–

Notes:

(i) Interest was charged on an amount due to the immediate holding company as disclosed in note 36.

(ii) Transactions were conducted with terms mutually agreed with the contracting parties.

(iii) The transactions constitute continuously connected transactions under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

(iv) The transactions are connected transaction in 2020 and continuously connected transaction in 2020 respectively under Chapter 14A of the Listing Rules.

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2020 and 2019 are set out in note 32.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2020 HK$'000	2019 HK$'000
Short-term benefits	7,165	9,446
Post-employment benefits	228	90
	7,393	9,536

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

42. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2020 HK$'000	2019 HK$'000
Right-of-use assets (note 17)	–	20,380
Buildings (note 16)	136	121,450
Plant and machinery (note 16)	–	146,057
Interests in subsidiary	86,085	–
Pledged bank deposits (note 29)	30,910	121,285
	117,131	409,172

43. COMMITMENTS

(a) Operating lease commitment

The Group as lessor

The Group leases out certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$736,000 (2019: HK$504,000). The Group had future minimum lease receipts from tenants under non-cancellable operating lease which fall due as follows:

	2020 HK$'000	2019 HK$'000
Within one year	67	393
In the second to fifth year inclusive	52	126
	119	519

(b) Capital commitment

	2020 HK$'000	2019 HK$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	108,699	7,654

44. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2019: HK$1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2019: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately HK$12,603,000 (2019: HK$61,196,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amount due to the immediate holding company	Bond payables	Convertible bonds	Lease liabilities	Bank and other borrowings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2019	17,603	113,562	284,725	78,643	2,154,838	2,649,371
Accrued interest	21	5,988	11,909	6,796	121,788	146,502
Financing cash outflows paid	(14,090)	(113,436)	–	(58,798)	(1,749,903)	(1,936,227)
Interest paid	(21)	–	–	(6,796)	(121,788)	(128,605)
Interest payable	–	(5,709)	(3,797)	–	–	(9,506)
New leases entered	–	–	–	15,595	–	15,595
Financing cash inflows	–	–	–	–	1,631,508	1,631,508
Non-cash changes	–	–	(292,837)	–	–	(292,837)
Exchange realignment	(111)	(405)	–	(891)	(6,146)	(7,553)
As at 31 December 2019 and 1 January 2020	3,402	–	–	34,549	2,030,297	2,068,248
Accrued interest	–	–	–	2,544	112,877	115,421
Financing cash outflows paid	(1,207)	–	–	(24,427)	(1,900,619)	(1,926,253)
Interest paid	–	–	–	(2,544)	(112,877)	(115,421)
New leases entered	–	–	–	10,172	–	10,172
Financing cash inflows	–	–	–	–	2,141,875	2,141,875
Exchange realignment	136	–	–	1,068	95,463	96,667
As at 31 December 2020	**2,331**	**–**	**–**	**21,362**	**2,367,016**	**2,390,709**

46. LITIGATION

With reference to the disclosure in the 2016, 2017, 2018 and 2019 annual report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "Tianjin Jingming"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2020, the court has concluded 51 cases, and Tianjin Jingming has appealed 4 cases against the judgement of first instance with aggregate compensation of approximately RMB3.15 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB24.90 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and Grand Pharm (China) had claimed the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgment by the court, the original shareholders of Tianjin Jingming should compensate to us approximately RMB8.09 million as the existing compensate and liquidated damages at the point of raising litigation. Grand Pharm (China) also has the right to raise litigation claiming the original shareholders of the Tianjin Jingming for the indemnification related to such product quality incident made by Tianjin Jingming in the future, the Directors therefore are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and after the first trial, second trial and retrial from the court, the court granted the final judgement in December 2020. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB11.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. Up to the date of this report, the Group has followed the judgement from the court and get back the RMB10 million deposited in the bank account jointly controlled by the Group and the vendors.

In June 2016, the Group has successfully applied to the court to freeze RMB20,000,000 (equivalent to approximately HK$22,414,000) assets of the original shareholders of Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company since January 2015 in order to secure the Group's pending responsibilities regarding certain litigations related to an incident as stated in a press release issued by the China National Food and Drug Administration (the "NMPA") on 14 April 2016, which is about a product quality incident related to some Ophthalmic Perfluoro propane Gases produced by Tianjin Jingming. According to the terms of the sales and purchase agreement in relation to the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for such product incident. The Group is claiming them for their responsibilities and also indemnified those related losses suffered by the Group.

46. LITIGATION *(Continued)*

(a) Writ issued in PRC by China Pharm (China) and original shareholders of Tianjin Jingming

Although such product incident is still under investigation, being taking up the social responsibilities and fulfilling related requirements, the Group had recalled all products of the related batches and also temporary suspended the production and sales of such related products. According to the terms of the Tianjin Jingming acquisition agreement, Tianjin Jingming had already fully settled the penalty of approximately RMB14,430,000 (equivalent to approximately HK$16,361,000) imposed by the NMPA. As at the date of this report, Tianjin Jingming is undertaking certain claim actions for approximately RMB16,540,000 (equivalent to approximately HK$18,762,000) given to the above incident. Given that (i) referring to the opinions from the professional organised by the NMPA, it is unable to identify the impurity that caused the product incident with the existing technology and it will need further investigation and research to find out the cause thereof; (ii) Ophthalmic Perfluoro propane Gases is not the core product of the Group, the Board considers that the suspension of the production of such product and the recall of the relevant batches by Tianjin Jingming do not have any material impact on the Group's operations or financial position; and (iii) according to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of the Tianjin Jingming should responsible for the compensation of such product incident. Hence, the Directors are of the view that the said incident and related litigations do not have material impact to the Group. For the detail information, please refer to the Group's interim report date on 20 September 2016.

On 22 August 2016, original shareholders of Tianjin Jingming filed its objection to the Rulings of Enforcement to the Wuhan Intermediate People's Court.

On 5 September 2016, the Group received the Wuhan Intermediate People's Court's dismissal to its objection.

(b) Writs issued in PRC by Tianjin Jingming and certain plaintiffs

In April and September 2016, the Group received writs issued by certain plaintiffs against Tianjin Jingming (as defendant) and demand for payment with claiming of plaintiffs legal charges.

On 17 January 2017, Tianjin Jingming received judgments dated 17 January 2017 issued by Beijing Haidian District People's Court. The court made orders to request Tianjin Jingming to provide the compensation payment with the relevant legal charges of approximately RMB3,952,000 (equivalent to approximately HK$4,619,000).

46. LITIGATION *(Continued)*

(b) Writs issued in PRC by Tianjin Jingming and certain plaintiffs *(Continued)*

As at the date of this report, the court has concluded 51 cases, and Tianjin Jingming has appealed 4 cases with aggregate compensation of approximately RMB3.15 million. For the remaining cases, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB24.90 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and GrandPharma (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

(c) Writs issued in PRC by Grand Pharm (China)

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

Save as disclosed above, as at 31 December 2020, so far as the Directors were aware, the Group was not engaged in any litigation or claims of material importance, and no litigation or claims of material importance are pending or threatened against the Group.

47. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties and equipment for fixed terms of 2 years to 5 years. On the lease commencement, the Group recognised approximately HK$10,172,000 of right-of-use assets and approximately HK$10,172,000 of lease liabilities.

The Group entered in the above non-cash investing activities which are not reflected in the consolidated statement of cash flows.

48. EVENTS AFTER THE REPORTING PERIOD

The board lot size for trading in the shares of the Company on the Stock Exchange changed from 4,000 Shares to 500 Shares with effect from 9:00 a.m. on Friday, 5 February 2021. The purpose is to lower the threshold for investors to purchase the Shares, thus facilitating the trading and improving the liquidity of the Shares, which will enable the Company to attract more investors and therefore broaden the shareholders' base of the Company. For further details please refer to the announcement of the Company dated 15 January 2021.

On 8 February 2021, the Company entered into a share purchase agreement with East Ocean Capital (Hong Kong) Limited, pursuant to which the Company acquired approximately 50.13% of the entire issued share capital of the East Ocean Medical (Hong Kong) Company Limited at a consideration of US$12,000,000.

49. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 17 March 2021.