SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 1177)

Annual Report 2019

Contents

Corporate Profile

Sino Biopharmaceutical Limited (the "Company" or "Sino Biopharm"), together with its subsidiaries (the "Group"), is a leading, innovative research and development ("R&D") driven pharmaceutical conglomerate in the People's Republic of China ("China" or "PRC"). Our business encompasses a fully integrated chain in pharmaceutical products which covers an array of R&D platforms, a line-up of intelligent production and a strong sales system. The Group's products have gained a competitive foothold in various therapeutic categories with promising potentials, comprising a variety of biopharmaceutical and chemical medicines for treating liver diseases, tumors, cardio-cerebral diseases, orthopedic diseases, digestive system diseases, infections and respiratory system diseases. In order to enhance our sustainable competitiveness, the Group attaches great importance to R&D breakthroughs and is positioned as an industry leader in terms of R&D expenditures and product innovation. The Group also actively establishes and extends co-operations with leading domestic and overseas pharmaceutical institutes and enterprises, to bring about the ecological commercialization of world-frontier R&D results to benefit mankind. To take advantage of the development in technology and policy changes and capitalize on opportunities arising from extension of our principal business, the Group adopts a comprehensive strategic layout of development in the greater healthcare field. Meanwhile, the Group actively utilizes new technologies in Big Data, Artificial Intelligence and Financial Technology to continuously enhance the efficiency of our management, R&D, manufacture and sales.

Principal products:

Hepatitis medicines:	Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules
Oncology medicines:	Saiweijian (Raltitrexed) injections, Yinishu (Dasatinib) tablets, Shoufu (Capecitabine) tablets, Anxian (Lenalidomide) capsules, Qianping (Bortezomib for injections)
Cardio-cerebral medicines:	Yilunping (Irbesartan/Hydrochlorothiazide) tablets, Tuotuo (Rosuvastatin Calcium) tablets, Kaina (Beraprost Sodium) tablets
Orthopedic medicines:	Gaisanchun (Calcitriol) capsules, Yigu (Zoledronic Acid) injections
Digestive system medicines:	Aisuping (Esomeprazole Sodium) injections, Getai (Diosmin) tablets, Deyou (Pronase) granules
Anti-infectious medicines:	Tiance (Biapenem) injections, Tianjie (Tigecycline for injections), Tianli (Linezolid and Glucose) injections
Respiratory system medicines:	Tianqingsule (Tiotropium Bromide) inhalation powder
Others:	Debaian (Flurbiprofen) cataplasms

The medicines which have received Good Manufacturing Practice ("GMP") certifications issued by the National Medical Products Administration of the PRC are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP certification for health food in capsules from the Department of Health of Jiangsu Province.

The Group's several principal subsidiaries: Chia Tai – Tianqing Pharmaceutical Group Co. Ltd. ("CT Tianqing"), Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide"), Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu CT Fenghai"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu CT Qingjiang"), CP Pharmaceutical (Qingdao) Co., Ltd. ("CP Qingdao"), Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong") and Shanghai Tongyong Pharmaceutical Co., Ltd. ("Shanghai Tongyong") have been designated "High and New Technology Enterprises". In addition, NJCTT, Jiangsu CT Qingjiang and Jiangsu CT Fenghai have been designated "Engineering Technological Research Centre for treating tumors and cardio-cerebral phytochemistry medicines of Jiangsu Province", "Engineering Technological Research Centre for orthopedic medicines" and "Engineering Technological Research Centre for parenteral nutritious medicines" by the Science and Technology Committee of Jiangsu Province, respectively.

Named by the Ministry of Personnel of the PRC as a "Postdoctoral Research and Development Institute", the research center of CT Tianqing is also the only "New Hepatitis Medicine Research Center" in the country.

Beijing Tide obtained the renewed GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in December 2012. Japanese pharmaceutical enterprises can assign the manufacturing of aseptic pharmaceutical products (products that are under research and products already launched to the domestic market within Japan) to Beijing Tide for export to Japan.

The Company was selected as a constituent stock of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite SmallCap Index with effect from 8 March, 2010.

In September 2011, CT Tianqing received the first certificate of new edition GMP (Certificate No. CN20110001) issued by the State Food and Drug Administration of the PRC for its small volume (injection) dosage.

The Company became a constituent of the MSCI Global Standard Indices' MSCI China Index with effect from the close of trading on 31 May, 2013.

The Company was included in Forbes Asia's "Asia Fab 50 Companies" for three consecutive years in 2016, 2017 and 2018.

Corporate Profile

In December 2017, Qingzhong (Tenofovir Disoproxil Fumarate) tablet became the first generic drug in the PRC that had completed the bioequivalence study according to the "Consistency of Quality and Efficacy Evaluation for Generic Drugs" ("Consistency Evaluation") standard. The Group was the first enterprise that passed the Consistency Evaluation.

In January 2018, Tuotuo (Rosuvastatin Calcium) tablet became the only drug that was approved in the Consistency Evaluation among a whole variety of drugs within Jiangsu Province and was the first of the same kind of drugs in the PRC.

In May 2018, a new Chemicals Category 1 drug of antitumor — Focus V (Anlotinib Hydrochloride) capsule obtained the approval for drug registration granted by National Medical Products Administration of the PRC.

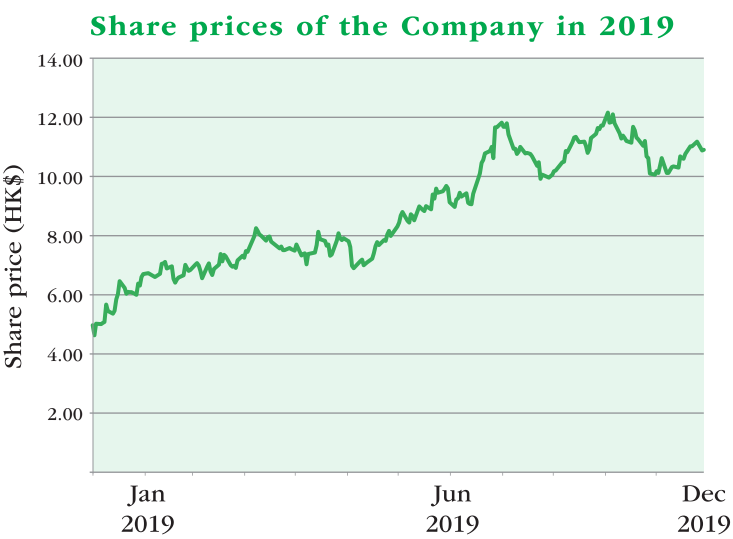
The Company was selected as a constituent stock of the Hang Seng Index with effect from 10 September 2018.

The Company was selected as a constituent stock of the Hang Seng China Enterprises Index with effect from 9 December 2019.

The Company was selected as a constituent stock of Hang Seng Connect Biotech 50 Index on 23 March 2020.

The Group's website: http://www.sinobiopharm.com

Fig.1.1



- Revenue: RMB24.2 billion (2019)
- Net Profit: RMB4.7 billion (2019)
- As at the end of 2019, the aggregate amount of cash dividend distribution was over HK$5.6 billion
- For the three years from 2017 to 2019, the total amount of taxes paid was over RMB12 billion

GROUP STRUCTURE OF PRINCIPAL SUBSIDIARIES

Fig.1.2

Sino Biopharmaceutical Limited
(Cayman Islands)

Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd.	(PRC)	**Investment**	100%
CP Pharmaceutical (Qingdao) Co., Ltd.	(PRC)	**R&D, Manufacture & Sale**	93%
Qingdao Heng Seng Tang Pharmacy Co., Ltd.	(PRC)	**Retail**	93%
Qingdao Chia Tai Kang Heng Medicines Co., Ltd.	(PRC)	**Sale & Distribution**	93%
Changshu Chia Tai Teda Logistics Development Co., Ltd.	(PRC)	**Distribution of pharmaceutical products**	75%
Tianjin Chia Tai Zhenwutang Food Co., Ltd.	(PRC)	**Manufacture & Sale**	66.99%
Zhengtai Logistics (Tianjin) Co., Ltd.	(PRC)	**Distribution of pharmaceutical products**	75%
Jiangsu Runji Investment Co., Ltd.	(PRC)	**Investment**	60%
Beijing Tide Pharmaceutical Co., Ltd.	(PRC)	**R&D, Manufacture & Sale**	57.6%
Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd.	(PRC)	**R&D, Manufacture & Sale**	55.588%
Jiangsu Chia Tai Qingjiang Medicines Co., Ltd.	(PRC)	**Sale & Distribution**	55.588%
China Biotech & Drug Development Limited	(Hong Kong)	**R&D**	51%
Chia Tai Shaoyang Orthopedic Hospital	(PRC)	**Outpatient & Hospitalization**	44.2%
Zhejiang Tianqing Zhongwei Medicines Co., Ltd.	(PRC)	**Sale & Distribution**	33%
Suzhou Tianqing Xingwei Medicines Co., Ltd.	(PRC)	**Sale & Distribution**	33%

81.786%	**Shanghai Tongyong Pharmaceutical Co., Ltd.**	(PRC)	**R&D, Manufacture & Sale**
81.786%	**Shanghai Tongzheng Import Export Co., Ltd.**	(PRC)	**Sale & Distribution**
70%	**Chia Tai Yeheng Biotech (Shanghai) Co., Ltd.**	(PRC)	**Medical technology development**
60.898%	**Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd.**	(PRC)	**R&D, Manufacture & Sale**
60.898%	**Jiangsu Chia Tai Fenghai Medicines Co., Ltd.**	(PRC)	**Sale & Distribution**
60.898%	**Nanjing Chia Tai Fenghai Medicines Technology Co., Ltd.**	(PRC)	**Sale & Distribution**
60%	**Chia Tai-Tianqing Pharmaceutical Group Co., Ltd.**	(PRC)	**R&D, Manufacture & Sale**
60%	**Lianyungang Chia Tai Tianqing Medicines Co., Ltd.**	(PRC)	**Sale & Distribution**
60%	**Lianyungang Tianrun Pharmacy Ltd.**	(PRC)	**Retail**
60%	**Lianyungang Runzhong Pharmaceutical Co., Ltd.**	(PRC)	**Manufacture & Sale**
60%	**Nanjing Shunxin Pharmaceutical Co., Ltd.**	(PRC)	**Manufacture & Sale**
60%	**Chia Tai Tianqing Europe SL**	(Spain)	**Health information consultancy services**
55.6%	**Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.**	(PRC)	**R&D, Manufacture & Sale**
38.912%	**Hangzhou Zhengzhuo Health Management Co., Ltd.**	(PRC)	**Health information consultancy services**
43.791%	**Anhui Chia Tai Banlanhua Healthcare Industry Co., Ltd.**	(PRC)	**Distribution & Retail**

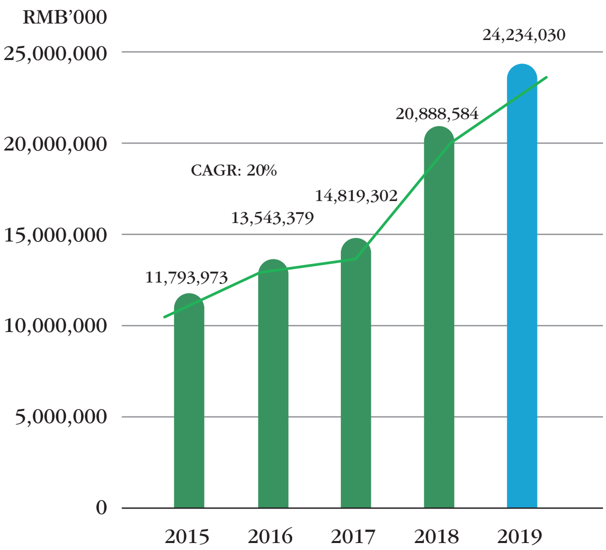
Financial Summary

A summary of the published results and assets, liabilities, net asset and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2019 **RMB'000**	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
TURNOVER	**24,234,030**	20,888,584	14,819,302	13,543,379	11,793,973
Cost of sales	**(4,926,268)**	(4,196,932)	(3,090,625)	(2,816,620)	(2,634,106)
Gross profit	**19,307,762**	16,691,652	11,728,677	10,726,759	9,159,867
Other income and gains	**862,603**	7,443,161	642,861	274,531	317,446
Selling and distribution costs	**(9,319,541)**	(8,078,544)	(5,917,879)	(5,453,137)	(4,780,162)
Administrative expenses	**(2,589,219)**	(2,189,501)	(986,945)	(1,039,434)	(1,000,281)
Other operating expenses	**(2,559,218)**	(2,344,333)	(1,602,006)	(1,526,075)	(1,104,310)
Including: Research and development costs	***(2,398,712)***	*(2,090,567)*	*(1,595,312)*	*(1,368,192)*	*(1,055,329)*
Finance costs	**(229,950)**	(153,264)	(77,945)	(76,648)	(64,693)
Share of profits and losses of associates	**111,385**	59,910	409,076	297,495	263,641
PROFIT BEFORE TAX	**5,583,822**	11,429,081	4,195,839	3,203,491	2,791,508
Income tax expenses	**(889,448)**	(696,236)	(542,292)	(474,984)	(431,933)
PROFIT FOR THE YEAR	**4,694,374**	10,732,845	3,653,547	2,728,507	2,359,575
Attributable to:					
Owners of the parent	**2,706,794**	9,046,347	2,170,951	1,637,378	1,441,754
Non-controlling interests	**1,987,580**	1,686,498	1,482,596	1,091,129	917,821
	4,694,374	10,732,845	3,653,547	2,728,507	2,359,575
TOTAL ASSETS	**58,299,251**	49,780,208	20,935,339	18,383,922	13,803,796
TOTAL LIABILITIES	**(18,014,683)**	(12,230,684)	(8,324,290)	(7,706,144)	(5,061,660)
NET ASSETS	**40,284,568**	37,549,524	12,611,049	10,677,778	8,742,136
NON-CONTROLLING INTERESTS	**(9,172,910)**	(8,336,686)	(3,402,255)	(2,772,779)	(2,251,614)

SALES GROWTH

Fig.1.3



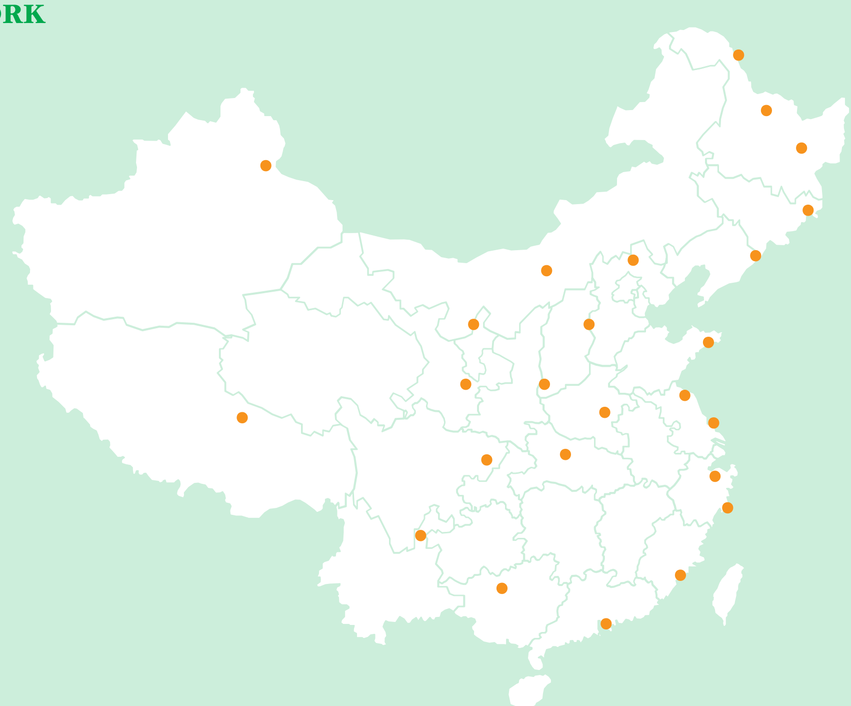
GROWTH OF PROFIT

Fig.1.4

* Excluded the impact of a one-off gain on step acquisition of 24% interests of Beijing Tide

SALES NETWORK

Fig.1.5



- Sales networks are distributed over the whole country; Over 13,000 professional sales staff
- Cover over 90% hospitals.
- R&D expenditures was over 10% of revenue.

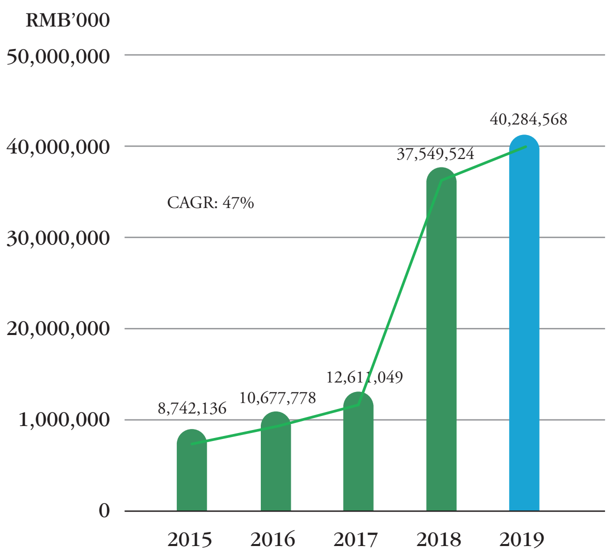
BLOCKBUSTER PRODUCTS

Fig.1.6

Products with sales over RMB1 Billion	6 pcs	Tianqingganmei injections Debaian Cataplasms Gaisanchun capsules
Products with sales RMB500-1,000 Million	10pcs	Aisuping injections Yilunping tablets Tuotuo tablets Saiweijian injections Tianqingsule inhalation powder Tiance injections Tianqingganping enteric capsules Kaina tablets
Products with sales over RMB100-500 Million	22pcs	Getai tablets Yigu injections Tianjie injections Yinishu tablets Shoufu tablets Anxian capsules Qianping injections Deyou granules Tianli injections

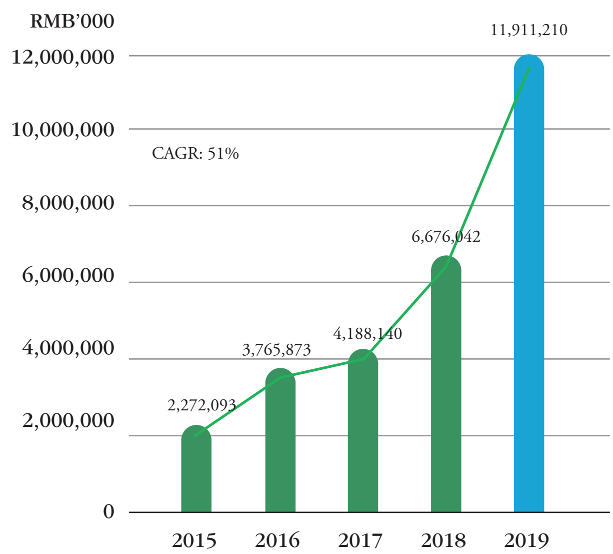
NET ASSETS VALUE

Fig.1.7



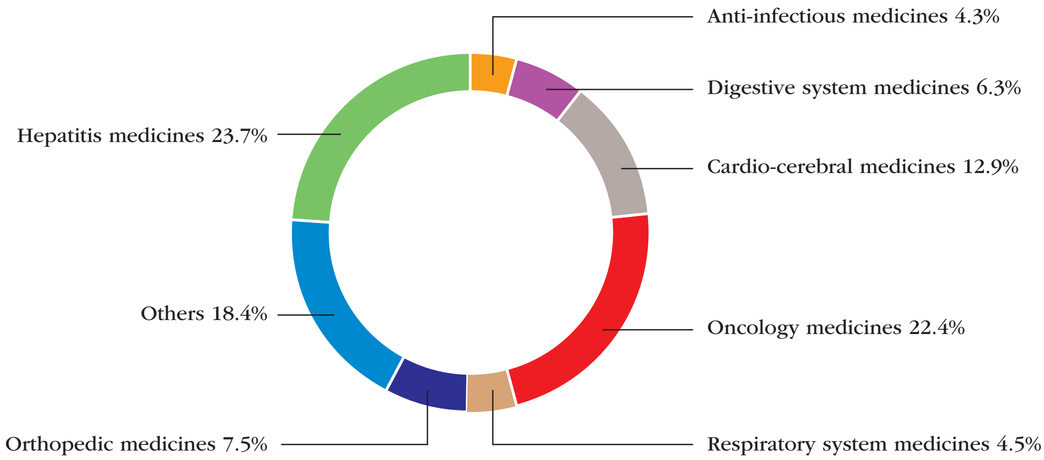
CASH AND BANK BALANCES

Fig.1.8



REVENUE BY THERAPEUTIC CATEGORIES (2019)

Fig.1.9



MAJOR R&D PRODUCTS OF THE GROUP

Fig.2.0

Therapeutic Area	Generic Name of the Drugs	
Oncology	Anlotinib Hydrochloride Capsules (Fourth Indication: Medullary Carcinoma of Thyroid)	Anlotinib Hydrochloride Capsules (Fifth Indication: Differentiated Thyroid Cancer)
	Idarubicin Hydrochloride for Injection	Trastuzumab
	Pomalidomide Capsules	Bevacizumab
	PD-1	PD-L1
	Rituximab	Everolimus Tablets
	Paclitaxel for Injection (Albumin Bound)	Trifluridine and Tipiracil Hydrochloride Tablets
	Lenvatinib Mesilate Capsules	Aprepitant Capsules
	Fulvestrant Injection	Pazopanib Tablets
	Sunitinib Malate Capsules	Lenvatinib Mesilate Capsules
	Afatinib Dimaleate Tablets	Aprepitant Capsules
	Degarelix Acetate for Injection	
Respiratory	Salmeterol Xinafoate and Fluticasone Propionate Powder for Inhalation	Arformoterol Tartrate Nebuliser Solution
	Fludostam Oral Solution	
Anti-infection	Emtricitabine and Tenofovir Disoproxil Fumarate Tablets	Colistimethate Sodium for Injection
	Sofosbuvir Tablets	Tenofovir Alafenamide Fumarate Tablets

MAJOR R&D PRODUCTS OF THE GROUP (continued)

Fig.2.0

Digestion	Levopantoprazole Sodium for Injection	Lubiprostone Soft Capsules
	Esomeprazole Magnesium Enteric coated Capsules	Omeprazole/Sodium Bicarbonate/Magnesium Hydroxide Chewable Tablets
	Dexlansoprazole Enteric Capsules	Polaprezine Granules
Cardio-cerebral	Sacubitril Valsartan Sodium Tablets	Edaravone Injection
	Olmesartan Medoxomil and Amlodipine Besylate Tablets	Amlodipine Besylate and Atorvastatin Calcium Tablets
	Tolvaptan Tablets	Tirofiban Hydrochloride and Sodium Chloride Injection
	Macitentan Tablets	Clopidogrel Hydrogen Sulphate Tablets
	Rivaroxaban Tablets	Apixaban Tablets
Hepatopathy	Tenofovir Alafenamide Tablets	Aifenfovir Tablets
Orthopedics	Eloricoxib Tablets	Calcitriol Ointment
	Paricalcitol Injection	Loxoprofen Sodium Hydrate
	Limaprost Alfadex Tablets	Calcitriol Oral Solution
	Eldecalcitol Soft Capsules	
Others	Vildagliptin Tablets	Canagliflozin Tablets
	Saxagliptin Tablets	Sitagliptin Phosphate Tablets
	Empagliflozin Tablets	Sitagliptin Phosphate/Metformin Hydrochloride Extended-release Tablets
	Iopamidol Injection	Iodixanol Injection
	Frovatriptan Succinate Tablets	Atomoxetine Hydrochloride Oral Liquid
	Atomoxetine Hydrochloride Capsules (Drug Supplementary Application)	TQ-B3101Capusules (Chemical Innovative Drug)
	Rivastigmine Transdermal Patch	TQ-B3525 Tablets (Chemical Innovative Drug)
	Loxoprofen Sodium Gel	Dexmedetomidine Hydrochloride and Sodium Chloride Injection
	Roxadustat Capsules	Adalimumab Solution for Injection
	Cisatracurium Besylate Injection	Vortioxetine Hydrobromide Tablets
	Suqian	Spironolactone Tablets (Drug Supplementary Application)
	Tianneng	Tiannengxin
	Haiweishu	Haiweian
	Invert Sugar Injection	Recombinant Coagulation Factor Ⅷ for Injection
	Rotigotine Transdermal Patch	Sugammadex Sodium Injection
	Apremilast Tablets	Iguratimod Tablets
	Tofacitinib Citrate Tablets	

Chairwoman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report the results of the Group for the year ended 31 December, 2019.

INDUSTRY OVERVIEW

During the year under review, the escalating global trade disputes, rising geopolitical tensions, the downturn in the manufacturing industry and trading led to a significant slowdown in global economic and trade growth. The growth of key developed economies continued to slow while that of emerging economies faced greater downward pressure. Nonetheless, the Chinese government has overcome various difficulties by fueling its economic development through implementing supply-side structural reform as its main strategy. Consequently, the national economy remained stable as a whole. Driven by ongoing improvement of its economic structure, China achieved a year-on-year GDP growth of 6.1% for the year.

In the pharmaceutical industry, the Chinese government introduced a series of major policy initiatives to further extend the medical and health system reform. The implementation of the centralized drug procurement programme in "4+7" cities, which prioritized Consistency Evaluation, led to a substantial drop in price of selected drugs, and thus a notable contraction in their profit, while also significantly influencing the business model and product structure of pharmaceutical enterprises. Clinical use of drugs has been optimized through various measures such as the adjustment of the National Medical Reimbursement Drug List, the launch of the National Key Monitoring Drug List and the national trials of payment categorized under Diagnosis-Related Groups ("DRG"), the acceleration of the approval for release of new medicines with urgent clinical needs, and the inclusion of medicines for coverage under medical insurance schemes through price negotiations. Product structure, or even the entire pharmaceutical industry, will undergo fundamental changes. Some of the pharmaceutical enterprises took the initiative to apply for the withdrawal of the permits for pharmaceutical manufacturing and operation. Hence, the pharmaceutical industry in China has reached a turning point of consolidation characterized by the survival of outperformers and elimination of underperformers.

BUSINESS REVIEW

Highlights of 2019 Results:

- Sino Biopharm ranked 42nd in U.S. magazine Pharm Exec's "Top 50 Companies 2019", as one of the only two Chinese companies on the list.
- Sino Biopharm garnered several awards at "The All-Asia-Executive Team 2019" held by Institutional Investor, and ranked 3rd among the "Honored Companies".
- Sino Biopharm was the only Chinese pharmaceutical company named among Forbes' "Asia 200 Best Over a Billion 2019".
- The quality control study "Shortening the Lyophilization Cycle of Product 'F'" presented by CT Tianqing, a subsidiary of the Company, won the International Quality Gold Award at the 44th International Convention on Quality Control Circles (ICQCC) held in Tokyo, Japan.
- At the "China ChemPharm Annual Summit 2019", Sino Biopharm's subsidiaries, namely CT Tianqing, Beijing Tide, NJCTT, Jiangsu CT Fenghai and CP Qingdao, were included in the Top 100 List of "Outstanding Enterprises and Outstanding Product Brands in China's Chemical Pharmaceutical Industry 2019". CT Tianqing again led the "Ranking of Top 100 R&D Capabilities of Chinese Chemicals Enterprises in 2019" and ranked 2nd in the "2019 Top 100 Enterprises in the PRC Pharmaceutical Industry – Comprehensive R&D Strength".
- CT Tianqing ranked 16th and Beijing Tide ranked 41st in the list of the "2018 Top 100 Pharmaceutical Companies in China" released at the "2019 (36th session) National Pharmaceutical Industry Annual Information Conference".


Beijing Tide's factory


NJCTT's factory

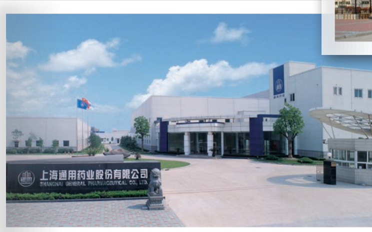

CT Tianqing's factory


CT Tianqing's R&D Centre


CP Qingdao's factory


Factories of Jiangsu CT Fenghai


Jiangsu CT Qingjiang's factory


Shanghai Tongyong's factory


Shaoyang Hospital

- Sino Biopharm ranked 1st among the "Top 20 Most Competitive Listed Chinese Pharmaceutical Companies" released at the "2019 China Healthcare Summit of Entrepreneurs, Scientists and Investors", and at the same time also ranked 2nd in the first-tier category of "Top 100 Innovative Pharmaceutical Enterprises in China".

- Eight new drug studies conducted by CT Tianqing were recognised as "National Major Innovative Drug Projects". The number of drug studies approved was among the highest in the country.

- Chia Tai Tianqing Akeso (Shanghai) Biomedical Technology Company Limited, a joint-venture company invested jointly by CT Tianqing and Akeso Biopharma, was officially set up in Shanghai. The joint venture is engaged in the development of the differentiated tumor immunotherapy PD-1 antibody drugs.

- Commanding a total investment of RMB3 billion and occupying an area of 520 mu, CT Tianqing's new drug R&D and production base opened, significantly boosting the Group's integrated strength in the biopharmaceutical area.

- A total of 28 products including Lenalidomide capsules, Abiraterone Acetate tablet and several indications of Anlotinib capsules obtained the approval for drug registration granted by the National Medical Products Administration. Over 40% of these products are oncology drugs and the competitive edge of our oncology product line has been substantially enhanced. Some 19 products have passed (or are deemed to have passed) the Consistency Evaluation.

During the year, the Group has secured the bid of two rounds of centralized drug procurements for 5 products, for which it has consistently displayed competitive advantages. Both sales performance and profit of these products were lower than expected due to a drop in prices. The inclusion of Kaishi in the National Adjuvant Drug List has posed a greater impact on its sales and led to drop in sales performance of the product. However, centralized drug procurement has allowed the Group to re-locate more resources in strengthening R&D and focus its academic promotion on oncology drugs and other new products with less competition. Two new indications of Anlotinib capsules have been approved and subsequently achieved great sales success. Other oncology drugs including Yinishu, Yigu, Shoufu, Qianping, Saiweijian and a recently approved product, Yijiu, analgesic medicines including Flurbiprofen cataplasm, cardio-cerebral medicines including Kaina and Xijia, digestive system medicines including Aisuping, Getai and Deyou and anti-infectious medicines including Tianjie and Tianli all enjoyed rapid growth. Markets for infusion solution products including Fenghaina, Qingkeping and the newly-launched contrast agent product Qingliming also expanded, leading to fast growth in sales. The Group's overall results for the year continued to show considerable growth. The share of revenue contributed by new products in the Group's total revenue also increased notably, demonstrating its mature integrated capability in launching and promoting innovative products.

During the year, the Group achieved an outstanding R&D performance and the Group obtained 28 production approvals and had 19 products passed Consistency Evaluation. Also, 23 products obtained clinical approval. The Group has made 25 new production applications and filed 19 new clinical trial applications. In addition, some 26 new applications for Consistency Evaluation have been accepted. The Group has obtained 83 invention patent approvals and filed 341 applications for invention patents.

In addition, Tenofovir Disoproxil Fumarate tablet (Qingzhong) has obtained Marketing Authorization (MA) from the EU, marking a milestone for the Group to officially enter into the international mainstream market.

Some newly approved products:

- **New indication of Anlotinib Capsules (brand name: FOCUS V®):**

  Anlotinib Capsules has obtained the approval for a new indication for soft tissue sarcoma, becoming the first such targeted drug approved in China. Soft tissue sarcoma is a rare and infractory cancer that begins in the tissues, such as fat, fascia, muscle, fiber, lymph and blood vessels. For decades, no first-line treatment that can improve the lifetime of soft tissue sarcoma patients have been approved. The approval of Anlotinib Capsules is the country's pioneering targeted treatment of the above indication, and has been included in the guidelines for the diagnosis and treatment of soft tissue sarcoma by the Chinese Society of Clinical Oncology.

- **Gadoxetic Acid Disodium Injection (brand name: Xian'ai):**

  This liver-specific magnetic resonance contrast agent is the first generic drug of its type in China. The product is able to increase the detection rate of small liver tumors, facilitating early diagnosis and treatment of liver lesions. It is also expected to replace invasive examinations and has piqued the widespread interest of the industry.

- **Iodixanol Injection (brand name: Qingliming):**

  Iodixanol is the only X-ray diagnostic contrast agent that is isotonic with blood, and has the advantages of high cardiac safety, excellent kidney tolerance, greater comfort to patients and less interference with cardiopulmonary circulation. Iodixanol is recognized and recommended by numerous domestic and international clinical guidelines and expert consensus for enhancing the lesion detection rate and functioning as diagnostic identification in the examinations of organ disease in the nervous and cardiovascular systems, chest, abdomen, pelvis, etc. As the third generic drug of its type in China, this product is expected to complement Xian'ai in the area of marketing.

- **Rivaroxaban Tablet:**

  This selective anticoagulant factor Xa inhibitor is an important product for preventing vein thrombosis after orthopedic operations. The branded product was first approved by the European Medicines Agency (EMA) in 2008, and approved by the US Food and Drug Administration (FDA) in 2011. Since its launch, its global market has been growing rapidly with a market scale of several billion Renminbi in the PRC. The Group has succeeded in producing and launching the first generic drug for this medicine and providing a new choice for patients.

- **Apixaban Tablet (brand name: Anbeining):**

  Similar to Rivaroxaban Tablet, Apixaban is also an oral, reversible, selective factor Xa inhibitor applicable to adult patients who have undergone hip joint or knee joint elective replacement to prevent venous thromboembolism. Compared with traditional anticoagulants, Apixaban has better safety and tolerance. Application is more convenient as the dosage is fixed and no routine coagulation monitoring or dosage adjustment is required. Apixaban has a wider therapeutic window and broader market prospects.

Both Apixaban and Rivaroxaban tablets have been included in the New National Medical Reimbursement Drug List and are expected to become major new products in the portfolio of the Group.

- **Abiraterone Acetate Tablet (brand name: Qingkeshu):**

  Abiraterone Acetate Tablet is a drug for prostate cancer treatment of new mechanism of action. The product is an androgen biosynthesis inhibitor which prevents tumors by inhibiting CYP17 activity. With clinical advantages of strong activity and high selectivity, the combination treatment plan of Abiraterone Acetate has been designated as a first-line or second-line treatment option for prostate cancer by European and American clinical guidelines. The approval given to Qingkeshu will provide more product choices with different price ranges but the same quality to patients in Mainland China. Prostate cancer is the second most common type of tumor in men worldwide. In China, prostate cancer is the most common genitourinary cancer in men.

- **Fosaprepitant Dimeglumine for Injection (brand name: Shanqi):**

  This neurokinin-1 (NK-1) antiemetic drug is recommended in numerous domestic and overseas guidelines. The efficacy is more obvious when combined with 5-HT3 receptor antagonists and Dexamethasone, for the prevention of nausea and vomiting caused by highly vomiting chemotherapy. The Group is one of the first batch of domestic enterprises successfully producing a generic drug of this kind. This product can perfectly complement the Group's oncology medicine product line, which has already enjoyed the advantage, and is expected to become a heavyweight product in its oncology product line.

- **Caspofungin Acetate for Injection (brand name: Tianming):**

  This first new echinocandin antifungal drug has broad-spectrum antifungal activity, showing promising efficacy and is safe for use. It has effective antifungal activities against various azole drugs-resistant fungi, no cross-resistance with azole drugs, and great synergistic effects when combined with other antifungal agents. Therefore, it has become the market's star product among the antifungal drugs for systemic use. The Group has obtained approval for two specifications of 50mg and 70mg, which are consistent with the branded product, providing greater convenience in terms of generic options for clinical doctors.

- **Tofacitinib Citrate Tablet (brand name: Tai'yan):**

  This oral small molecule inhibitor of JAK1/JAK3 blocks the signal transduction of multiple inflammatory cytokine. Research has shown that Tofacitinib has promising efficacy for treating rheumatoid arthritis, ulcerative colitis, active psoriatic arthritis, moderate-to-severe active ulcerative colitis, etc. The product boasts excellent clinical efficacy and safety and the Group is the first in the country to produce generic drug of this kind. The Group has also obtained approval for Celecoxib Capsule, a classic osteoarthritis medicine with wide indications and a mature market. The drug has been included within the National Medical Reimbursement Drug List. With the approval of Taiyan, the value of the osteoarthritis drug product lines has also surged substantially.

The Group recorded revenue of approximately RMB24,234.03 million during the year, representing an increase of approximately 16.0% over the last year. Profit attributable to the owners of the parent was approximately RMB2,706.79 million, approximately 70.1% lower than that of the last year. Earnings per share attributable to the owners of the parent were approximately RMB21.58 cents, approximately 70.5% lower than that of the last year. The year-on-year decreases in profit and earnings per share attributable to the owners of the parent were only due to the absence of a substantial one-off gain on step acquisition recorded in the last year. Excluding the impact of the gain on step acquisition and the annual amortization expenses of new identifiable intangible assets arising from the acquisition of 24% interests in Beijing Tide, as well as the unrealized fair value losses (net) on equity investments and financials assets, underlying profit attributable to the owners of the parent was approximately RMB3,131.77 million, approximately 10.2% higher than that of the last year. Based on underlying profit attributable to the owners of the parent, the earnings per share were approximately RMB24.97 cents, approximately 8.7% higher than that of the last year. Cash and bank balances totaled approximately RMB11,911.21 million at the year end. Upon the completion of the acquisition of 24% interests in Beijing Tide on 1 March, 2018, the financial figures of Beijing Tide have been consolidated with the consolidated financial statements of the Company since then.

PROSPECTS

China's pharmaceutical industry will face greater pressure in 2020. The centralized drug procurement policy is certain to be extended throughout the country. Profit of products that have secured bids will show notable contraction despite the increase in sales volume. The implementation of measures including the launch of and adjustments to the New National Medical Reimbursement Drug List, realization of payment categorized under DRG, the Key Monitoring Drug List and performance evaluation of hospitals will speed up the adjustments to the products and overall industry landscapes, hence the turning point of the survival of the fittest gradually emerged in the industry. The implementation of new measures encouraging innovation will accelerate the approval and launch of innovative products. As more multinational companies are turning to China to launch their new products, leading local enterprises in the country will be confronted with more intense competition from these companies in terms of innovative products.

Those companies like Sino Biopharm, which have strong innovative and R&D capabilities and continuously launch new products in the market, highlight their advantages. In addition to marketing more new products and consolidating its dominant position in the hepatitis and oncology small molecular drug sectors, the Group also places high value on the increasingly important treatment and market value of biopharmaceutical medicines and thus has adopted a comprehensive roadmap covering different facets from R&D to the production.

To tackle risks associated with industry policy changes, the Group responds in a calm and orderly manner. However, faced with the unexpected pandemic, enterprises need to rely on their financial strengths and rapid responsiveness to overcome the difficult situation.

The spread of the novel coronavirus around the world has threatened the life and health of billions of people, and led to temporary suspension of businesses in the commercial and industrial sectors of many countries, stirring up volatility in financial markets. It is difficult to judge how far-reaching the impacts of this pandemic of the century will have on the global economy. The Group has maintained ample liquidity. As of 31 December 2019, its cash and bank balances amounted to approximately RMB11,911 million, which is sufficient for withstanding any shocks that may result from abrupt changes in the economic and industry environments. Facing the fierce outbreak, the Group promptly made the decision in late January 2020 to issue zero coupon convertible bonds with a principal amount of EURO750 million. This move consequently generated more abundant funds for the Group.

Crisis always brings opportunities. Economic downturn and industry consolidation have created more investment opportunities for leading enterprises. The Group will fully utilize its cash on hand and competitive advantages to actively look for quality acquisition, investment and cooperation projects; capitalize on opportunities arising from the extension of its principal pharmaceutical business; and fully implement its development strategy for the greater healthcare field, so as to lay a strong foundation for the Group's rapid growth in the coming decade. 5G network and devices have become more popular in Mainland China since the beginning of 2020. As such, the Group will continue to step up its investment in big data, digitalization and artificial intelligence, as well as increase the use of related advanced technologies. These strategies will allow Group not only to further enhance its efficiency in management, R&D, production and sales, but also create greater value for the industry and patients and promote the development of "patient-oriented" pharmaceutical services, pharmaceutical care services and chronic disease management systems, providing full course disease management solutions from which patients can benefit.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders for their trust, support and understanding, as well as to all staff for their dedication and diligence.

Management Discussion and Analysis

The Group continues to focus on developing specialized medicines where its strengths lie so as to build up its brand in specialist therapeutic areas. Leveraging on its existing medicine series for treating hepatitis and cardio-cerebral diseases, the Group also actively develops oncology medicines, orthopedic medicines, digestive system medicines, respiratory system medicines and anti-infectious medicines, etc.

HEPATITIS MEDICINES

For the year ended 31 December, 2019, the sales of hepatitis medicines amounted to approximately RMB5,739.72 million, representing approximately 23.7% of the Group's revenue.

CT Tianqing mainly produces two categories of hepatitis medicines that can protect the liver while lowering enzyme levels and combat hepatitis virus. Tianqingganping enteric capsules made with ingredients extracted from Licorice have the dual effects of liver protection and lowering enzyme level. For the year ended 31 December, 2019, its sales amounted to approximately RMB525.04 million, an increase of approximately 22.5% against the last year. In addition, during the year, the patented medicine Tianqingganmei injections launched by CT Tianqing, which are made with Isoglycyrrhizinate separated from Licorice, recorded the sales of approximately RMB1,803.57 million, an increase of approximately 5.5% against the last year. The Group believes that medicine series made with ingredients extracted from Licorice will help to maintain CT Tianqing's leadership in the market for medicines protecting the liver and lowering enzyme levels.

ONCOLOGY MEDICINES

For the year ended 31 December, 2019, the sales of oncology medicines amounted to approximately RMB5,427.88 million, representing approximately 22.4% of the Group's revenue.

Oncology medicines are mainly manufactured by CT Tianqing and NJCTT. For the year ended 31 December, 2019, sales of Saiweijian injections amounted to approximately RMB704.52 million, an increase of approximately 37.5% as compared with the last year. Sales of Yinishu tablets for the year ended 31 December, 2019 amounted to approximately RMB224.91 million, an increase of approximately 36.8% as compared with the last year. For the year ended 31 December, 2019, the sales of Shoufu tablets amounted to approximately RMB214.16 million, an increase of 26.6% as compared with the last year. The sales of new product Anxian capsules for the year ended 31 December, 2019 amounted to approximately RMB176.06 million. The sales of another new product Qianping injections for the year ended 31 December, 2019 amounted to 166.75 million, a sharp increase of 125.7% as compared with the last year.

CARDIO-CEREBRAL MEDICINES

For the year ended 31 December, 2019, the sales of cardio-cerebral medicines amounted to approximately RMB3,116.29 million, representing approximately 12.9% of the Group's revenue.

For the year ended 31 December, 2019, the sales of Yilunping tablets amounted to approximately RMB910.34 million, a year-on-year increase of approximately 16.2%. For the year ended 31 December, 2019, the sales of Tuotuo calcium tablets amounted to approximately RMB753.55 million, a year-on-year increase of approximately 14.8%. Applying the technology of micro-solid dispersion with microgram precision, Kaina tablets can explicitly improve the ulcer, intermittent claudication, pain and cold symptom from the chronic arterial occlusion. For the year ended 31 December, 2019, the sales of Kaina tablets amounted to approximately RMB513.07 million, an increase of approximately 25.1% as compared with the last year.

ORTHOPEDIC MEDICINES

For the year ended 31 December, 2019, the sales of orthopedic medicines amounted to approximately RMB1,809.36 million, representing approximately 7.5% of the Group's revenue.

The main product of orthopedic medicines is the Gaisanchun capsules. For the year ended 31 December, 2019, its sales amounted to approximately RMB1,047.15 million, an increase of approximately 4.6% against the last year. For the year ended 31 December, 2019, the sales of Yigu injections amounted to approximately RMB315.05 million, a remarkable increase of approximately 68.8% against the last year.

DIGESTIVE SYSTEM MEDICINES

For the year ended 31 December, 2019, the sales of digestive system medicines amounted to approximately RMB1,529.55 million, representing approximately 6.3% of the Group's revenue.

For the year ended 31 December, 2019, the sales of Aisuping injection amounted to approximately RMB949.25 million, an increase by approximately 26.5% as compared with the last year. The sales of Getai tablets amounted to approximately RMB327.29 million for the year ended 31 December, 2019, an increase by approximately 37.6% as compared with the last year. The sales of Deyou granule for the year ended 31 December, 2019 amounted to approximately RMB176.84 million, a remarkable increase of approximately 66.8% as compared with the last year.

RESPIRATORY SYSTEM MEDICINES

For the year ended 31 December, 2019, the sales of respiratory medicines amounted to approximately RMB1,084.61 million, representing approximately 4.5% of the Group's revenue.

The main product of respiratory system medicines is Tianqingsule inhalation powder. For the year ended 31 December, 2019, its sales amounted to approximately RMB627.43 million, an increase by approximately 24.3% as compared with the last year.

ANTI-INFECTIOUS MEDICINES

For the year ended 31 December, 2019, the sales of anti-infectious medicines amounted to approximately RMB1,032.19 million, representing approximately 4.3% of the Group's revenue.

For the year ended 31 December, 2019, the sales of Tiance injections amounted to approximately RMB564.49 million. For the year ended 31 December, 2019, the sales of another product, Tianjie injections, amounted to approximately RMB308.10 million, an increase of approximately 37.5% against the last year. For the year ended 31 December, 2019, the sales of Tianli injections amounted to approximately RMB98.78 million, a significant increase of approximately 101.1% against the last year.

OTHERS

For the year ended 31 December, 2019, the sales of others amounted to approximately RMB4,494.43 million, representing approximately 18.4% of the Group' revenue.

Our product for relieving non-surgical joint soft tissue pain is Debaian cataplasm. Its sales for the year ended 31 December, 2019 amounted to approximately RMB1,066.98 million, increased by approximately 42.4% over the last year.

UNDERLYING PROFIT

Addition information is provided below to reconcile profit attributable to the owners of the parent and underlying profit. The reconciling items principally adjust for the impact of a one-off gain on step acquisition and the annual amortization expenses of new identifiable intangible assets (net of deferred tax and non-controlling interests) arising from the acquisitions of 24% interests of Beijing Tide in 2018 (Note), and the unrealized fair value gains and losses of equity investments and financial assets.

Note: Details of the acquisition have been set out in the announcements of the Company dated 5 January, 2018 and 1 March, 2018, respectively, and the circular of the Company dated 26 January, 2018.

	For the year ended 31 December,	
	2019	2018
	RMB'000	RMB'000
Profit attributable to the owners of the parent	2,706,794	9,046,347
Adjustments related to the acquisition of 24% interests in Beijing Tide:		
Gain on deemed disposal of previously held 33.6% interests in Beijing Tide	–	(6,598,691)
Amortization expenses of new identifiable intangible assets (net of deferred tax and non-controlling interests)	420,283	350,236
Unrealized fair value losses of equity investments and financial assets, net	4,688	43,432
Underlying profit	3,131,765	2,841,324
Basic earnings per share		
Underlying profit attributable to the owners of the parent used in the basic earnings per share calculation	3,131,765	2,841,324
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (Shares)	12,540,704,268	12,365,704,690
Basic earnings per share, based on underlying profit attributable to the owner of the parent (RMB' cents)	24.97	22.98

To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), underlying profit is presented in this results announcement as an additional non-HKFRS financial measure to provide supplementary information for better assessment of the performance of the Group's core operations by excluding certain non-cash items and impact arising from acquisitions. Underlying profit is to be considered in addition to, and not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRS.

EQUITY INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/PROFIT OR LOSS

As at 31 December, 2019, the Group had the non-current equity investments designated at fair value through other comprehensive income (including certain unlisted equity investments) of approximately RMB1,211.08 million (31 December 2018: approximately RMB 743.28 million) and current equity investments designated at fair value through profit or loss (including certain listed shares investments) of approximately RMB491.36 million (31 December, 2018: approximately RMB146.81 million).

In addition, as at 31 December, 2019, the Group had the current financial assets at fair value through profit or loss, including (i) the convertible bonds of Karolinska Development AB of nil (31 December 2018: approximately RMB138.40 million) after conversion into shares of Karolinska Development AB; and (ii) certain wealth management products and trust funds of approximately RMB1,084.88 million (31 December 2018: approximately RMB1,715.48 million), including the wealth management products of Bank of Communication (approximately RMB503 million), Bank of Agriculture (approximately RMB358 million), Bank of Jiangsu (approximately RMB101 million) and other banks. The wealth management products mainly consisted of principal-guaranteed products with floating return and relatively lower risk of default. All principal and interests will be paid together on the maturity date. The board of the directors (the "Board") of the Company believes that the investment in wealth management products and trust funds can strengthen the financial position of the Group and bring the fruitful contribution to the profit of the Group. As at 31 December, 2019, these investments amounted to approximately RMB1,084.88 million in total, representing approximately 1.9% of the total assets of the Group.

For the year ended 31 December, 2019, the Group recorded the realized gain on the disposal of the equity investment of approximately RMB13.94 million and unrealized fair value loss (net) of the equity investments and financial assets of approximately RMB4.69 million. The Board believes that the investment in equity investments and financial assets can diversify the investment portfolio of the Group and achieve a better return to the Group in future.

R&D

The Group has continued to focus its R&D efforts on new hepatitis, oncology, respiratory system and cardio-cerebral medicines. During the fourth quarter, the Group was granted 9 clinical trial approvals, 9 production approvals, and 6 approvals for Consistency Evaluation, and made 6 clinical trial applications, 4 applications for Consistency Evaluation and 11 production applications. Cumulatively, a total of 486 pharmaceutical products had obtained clinical trial approval, or were under clinical trial or applying for production approval. Out of these, 34 were for hepatitis medicines, 204 for oncology medicines, 27 for respiratory system medicines, 27 for endocrine, 50 for cardio-cerebral medicines and 144 for other medicines.

Over the years, the Group has been placing high importance on R&D and innovation, as well as through collaboration and imitation, to raise both R&D standards and efficiency. Regarding R&D as the lifeblood of the Group's development, the Group continues to devote into more resources. For the year ended 31 December, 2019, the R&D expenditure of approximately RMB2,398.71 million (which was charged to the statement of profit or loss) and the capitalized amount of R&D of approximately RMB252.82 million (which was recorded as development cost), in aggregate accounted for approximately 10.9% of the Group's revenue.

The Group also emphasizes on the protection of intellectual property rights. It encourages its subsidiaries to apply for patent applications as a means to enhance the Group's core competitiveness. During the fourth quarter, the Group has received 23 authorized patent notices (all were invention patents) and filed 83 new patent applications (77 invention patents, 1 utility model patents and 5 apparel design patents). Cumulatively, the Group has obtained 766 invention patent approvals, 23 utility model patents and 90 apparel design patents.

INVESTOR RELATIONS

To drive long-term sustainable development of its business, the Group is committed to maintaining high corporate governance standards. The Group has been proactive in approaching investors through a variety of channels to ensure they have thorough understanding of its latest developments and also to enhance corporate transparency and exposure. Furthermore, the Group gauges the valuable opinions of investors through personal exchanges to help it review and fine tune its development direction.

During the year, the Group organized an array of events to inform investors of its latest business development initiatives and status, including its 2019 Interim Results Investor Presentation, which attracted over 280 analysts, fund managers and other investors. Apart from the large-scale investor conference, the management also hosted a media conference on the Group's results to make sure retail investors were also kept up-to-date of the Group's latest business status and development prospects via media coverage.

In addition, during the year, the management participated in many investment summits held in Hong Kong, Macau, Shanghai, Beijing and New York by large investment banks and securities companies, including J.P. Morgan, Citibank, Morgan Stanley, CLSA, and UBS among others. The management also arranged factory site visits for investors that they might gain first-hand update about the Group's business and competitive advantages.

The Group has availed its annual reports, quarterly and annual results announcements, disclosures and circulars on its corporate website, and as always also on the website of Hong Kong Exchanges and Clearing Limited. It has also issued voluntary announcements to inform shareholders and investors about its latest business endeavors, in keeping with its commitment to increasing transparency.

Through the above efforts, the execution ability, professional investor relations management and corporate governance level of the management team of Sino Biopharm have been well-recognized by the capital market. In the selection of "The All-Asia Executive Team 2019" sponsored by the authoritative international financial magazine Institutional Investor, the Group earned the title of "Honored Company" in the Health Care & Pharmaceuticals sector, also the "Best CEO", "Best IR Professional", "Best IR Program", "Best ESG/SRI Metrics" and "Best Corporate Governance" honors. The Group hereby thanks investors for their votes of confidence and recognition.

THE ISSUANCE OF CONVERTIBLE BONDS

On 18 February 2020, the Company has successfully completed the issuance and listing of EURO750,000,000 zero coupon convertible bonds due 2025 (the "Bonds") by way of debt issues to professional investors only. The Bonds may be converted into conversion shares pursuant to the terms and conditions of the Bonds. Assuming full conversion of the Bonds at the initial conversion price of HK$19.09 per share of the Company and no further issue of shares of the Company ("Shares"), the Bonds will be convertible into 338,380,041 Shares, representing approximately 2.69 percent. of the issued share capital of the Company as at 18 February 2020 and approximately 2.62 percent of the issued share capital of the Company as at 18 February 2020 as enlarged by the issue of the conversion shares upon full conversion of the Bonds. The conversion shares to be issued upon conversion of the Bonds will rank pari passu and carry the same rights and privileges in all respects with the Shares then in issue on the relevant registration date.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year, the Group's primary sources of funds were cash derived from operating activities and bank borrowings. As at 31 December, 2019, the Group's cash and bank balances were approximately RMB11,911.21 million (31 December, 2018: approximately RMB6,676.04 million).

CAPITAL STRUCTURE

As at 31 December, 2019, the Group had short term loans of approximately RMB666.75 million (31 December, 2018: approximately RMB2,905.58 million) and had long term loans of approximately RMB7,884.80 million (31 December, 2018: approximately RMB507.07 million).

CHARGE ON ASSETS

As at 31 December, 2019, the Group had charge on assets of approximately RMB830.00 million (31 December, 2018: approximately RMB400.96 million), excluding the amount of bills receivable discounted at banks of approximately RMB598.99 million (31 December, 2018: approximately RMB13.48 million).

CONTINGENT LIABILITIES

As at 31 December, 2019, the Group and the Company had no material contingent liabilities (31 December, 2018: Nil).

ASSETS AND GEARING RATIO

As at 31 December, 2019, the total assets of the Group amounted to approximately RMB58,299.25 million (31 December, 2018: approximately RMB49,780.21 million) whereas the total liabilities amounted to approximately RMB18,014.68 million (31 December, 2018: approximately RMB12,230.68 million). The gearing ratio (total liabilities over total assets) was approximately 30.9% (31 December, 2018: approximately 24.6%).

EMPLOYEE AND REMUNERATION POLICIES

The Group had 23,475 employees as at 31 December, 2019 and remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as employee share incentive schemes. Total staff cost (including Directors' remuneration) in selling and distribution costs and administrative expenses for the year was approximately RMB3,177,868,000 (2018: approximately RMB2,337,880,000).

The Group adopted the Share Option Scheme on 28 May, 2013 (the "2013 Share Option Scheme") and the Share Award Scheme on 5 January, 2018 (the "2018 Share Award Scheme"), both of which will provide incentive to retain and encourage the selected participants for the continual operation and development of the Group. As of 31 December, 2019, (i) no option in respect of the Shares had been granted under the 2013 Share Option Scheme; and (ii) 47,667,000 Shares were held on trust under the 2018 Share Award Scheme and no Shares had been granted to any selected participant yet.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate of HK dollars and US dollars is pegged under the fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Corporate Governance Report

Sino Biopharmaceutical Limited (the "Company") is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of governance that properly protects and promotes the interests of all shareholders and enhances corporate value and accountability.

For the year ended 31 December, 2019, the Company has applied the principles of and complied with all the Code Provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from Code Provision A.6.7 in relation to attendance of the annual general meeting of the Company (the "AGM") by Independent Non-Executive Director ("INED"). Two INEDs were unable to attend the AGM held on 5 June, 2019 due to other business engagements.

Despite the removal of the requirement for qualified accountant on 1 January, 2009, the Company continues to engage qualified accountants to oversee its finance, accounting and financial reporting functions.

This report describes our corporate governance code and explains the application of the CG Code and any deviation from the CG Code, if any.

A. BOARD OF DIRECTORS

THE BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and annual budget should be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board has delegated its responsibilities to senior management to deal with day-to-day operations and reviewed those arrangements on a periodic basis. Management then reports back to the Board and obtains prior approval before making decisions for key matters or entering into any material commitments on behalf of the Company. The Board has conducted regular review on the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time performing them.

To maximise the efficiency of the Board and to encourage active participation and contribution by Board members, the Board has established an Executive Board Committee (the "EBC"), the Audit Committee (the "AC"), the Remuneration Committee (the "RC") and the Nomination Committee (the "NC") with specific terms of reference, which are on terms no less exacting than those set out in the CG Code, to assist in the execution of their duties. The written terms of reference of each of the committees are reviewed and amended, if necessary, from time to time on the committees' structure, duties and memberships, and have been posted on the websites of the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company Secretary and the Qualified Accountant shall, where appropriate and necessary, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Company's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

All directors are given opportunities to include matters to be discussed in the agenda of the Board/ committees meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Directors are encouraged to participate actively either in person or through electronic means of communications. Ad-hoc meetings are convened when they are considered necessary. During the year ended 31 December, 2019, the Board held four regular meetings for discussion of the Company's financial results. Notices of regular Board/committees meetings were given at least 14 days before the date of meeting. For all other Board/committees meetings, reasonable notices were given.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least 3 days before the date of the scheduled meeting. Where queries are raised by directors, response should be given as promptly and fully as possible within a reasonable time.

Minutes of the Board/committees meetings are recorded in details for the matters considered by the participants of such meetings and the decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or Secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete and adequate explanation and information on a timely basis to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities. The directors, in order to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a physical Board meeting and the interested director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. INEDs who have no interests in the transaction shall be present at that Board meeting.

During the year, the Chairwoman of the Board had a meeting with the INEDs to discuss various matters on corporate governance of the Company without the presence of other directors.

BOARD COMPOSITION

During the year ended 31 December, 2019, the Board consisted of a total of eight executive directors, including the Chairwoman and the Chief Executive Officer ("CEO"), and four INEDs.

Position		Name
Chairwoman	:	Ms. Tse, Theresa Y Y
Executive directors	:	Mr. Tse Ping (CEO)
	:	Ms. Cheng Cheung Ling
	:	Mr. Tse, Eric S Y
	:	Mr. Tse Hsin
	:	Mr. Wang Shanchun
	:	Mr. Tian Zhoushan
	:	Ms. Li Mingqin
INEDs	:	Mr. Lu Zhengfei
	:	Mr. Li Dakui
	:	Ms. Lu Hong
	:	Mr. Zhang Lu Fu

The attributes, skills and expertise among the Board members have a balanced mix of core competencies in areas such as pharmaceutical, accounting and finance, business and management and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them a confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and actively participating in committees, if invited;
- attending general meetings of the Company, where appropriate, and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of results.

CORPORATE GOVERNANCE FUNCTIONS

The Board shall be responsible for the following functions:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring training and continuous professional development of directors and senior management;
- reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;
- reviewing the Company's compliance with the CG Code, including disclosure in the Corporate Governance Report;
- developing and reviewing the code of conduct and compliance manual, if any, applicable to employees and directors;
- doing any such things to enable the Board committees to discharge their duties and functions;
- conforming to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation; and
- considering and making recommendations on any other corporate governance issues.

CHAIRWOMAN AND CHIEF EXECUTIVE

The CG Code Provision A.2.1 stipulates that the roles of Chairwoman and chief executive should be separate and should not be performed by the same individual. Ms. Tse, Theresa Y Y acts as the Chairwoman and Mr. Tse Ping serves as CEO of the Company.

The Chairwoman is responsible for overseeing the operations of the Board and formulating overall strategies and policies of the Company. The Chairwoman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

The CEO is responsible for managing the Group's business and operations.

Ms. Tse, Theresa Y Y and Mr. Tse Ping are daughter and father. The respective relationship of Ms. Tse, Theresa Y Y and Mr. Tse Ping with other members of the Board is provided in the Directors and Senior Management Profile section on pages 47 to 59 of this annual report.

APPOINTMENT, RE-ELECTION AND REMOVAL

The Company has formal and proper procedure for consideration of the appointment of new directors to the Board and the resignation of any director.

The Executive Directors have not been appointed for a specific term while each of the INEDs has been appointed for a term of two years. All Directors shall be subject to retirement by rotation and re-election at the AGM in accordance with the Articles of Association of the Company (the "Articles"), the laws of the Cayman Islands and the Listing Rules so far as the same may be applicable. The Articles provide that (i) one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (ii) the directors to retire by rotation shall include any director who wishes to retire and not to offer himself/herself for re-election. The retiring directors shall be those who have been longest in office since their last re-election or appointment.

The name and biographical details of the directors who will offer themselves for re-election at the forthcoming AGM are set out in a circular accompanying the notice of meeting, which will be despatched together with the annual report, to assist shareholders in making an informed decision on their elections.

TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, in order to make sure that he/she has appropriate understanding of the business and operations of the Company and is fully aware of his/her responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

Pursuant to CG Code Provision A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year under review, all Directors have participated in continuous professional development by reading relevant materials on the topics related to corporate governance and regulations.

Company Secretary

The Company Secretary is responsible for facilitating the Board process, as well as communications among the Board members, shareholders and management. Mr. Chan Oi Nin Derek serves as the Company Secretary. He is a full time employee of the Company and possesses the professional qualifications as required under Rule 3.28 of the Listing Rules. He has taken no less than 15 hours of relevant professional training by attending seminars to update his knowledge and skills in compliance with Rule 3.29 of the Listing Rules.

COMMITTEES

The AC was established on 19 September, 2000. The EBC and the RC were established in October, 2005, and the NC was set up on 30 March, 2012.

Executive Board Committee

During the year ended 31 December, 2019, the EBC consisted of Ms. Tse, Theresa Y Y as chairwoman and Mr. Tse Ping, Ms. Cheng Cheung Ling, Mr. Tse, Eric S Y, and Mr. Tse Hsin as members.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restrictions.

Remuneration Committee

During the year ended 31 December, 2019, Mr. Zhang Lu Fu served as the chairman and Mr. Lu Zhengfei and Ms. Lu Hong served as members of the committee.

The principal functions of the RC include:

- recommending to the Board on the policies and structure of the remuneration of directors of the Company and senior management of the Group;
- recommending the basis of the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing the compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring that no director or any of his/her associates are involved in deciding his/her own remuneration.

The RC held one meeting during the year to discuss and review the basis of the remuneration policies and packages of the directors of the Company and senior management of the Group. Emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions.

Information relating to the remuneration of each director for the year under review is set out in note 8 to the financial statements of this annual report.

Audit Committee

During the year under review, the AC consisted of Mr. Lu Zhengfei as chairman, and Mr. Li Dakui and Ms. Lu Hong as members. The members together have sufficient accounting and financial management expertise and legal and business experience to discharge their duties.

The major duties and responsibilities of the AC are set out clearly in its terms of reference, which include:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors;
- discussing with external auditors the independence and reporting obligations of auditors and the nature and scope of audit before the audit commences;
- monitoring the integrity of financial statements and reviewing the quarterly, interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations for internal control matters as delegated by the Board or on its own initiative and management's response;
- reviewing external auditors' management letter or any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response, and ensuring that the Board will provide a timely response to the issues raised; and
- discussing with management to ensure that management has reviewed if there is adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions.

The AC performed the following work during the year under review:

- met with management and external auditors to review and discuss the financial statements for the year ended 31 December, 2019 and auditors' management letter;
- reviewed with management the unaudited financial statements for the three months ended 31 March, 2019, the six months ended 30 June, 2019, and the nine months ended 30 September, 2019, respectively;
- met with external auditors to review the external auditors' plan for statutory audit and engagement letter;
- recommended to the Board, for the approval by shareholders, of the re-appointment of auditors;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of the Group;
- reviewed the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit function; and
- discussed with management to ensure that the Board had conducted an annual review such that there was adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions.

Nomination Committee

During the year under review, the NC consisted of Ms. Tse, Theresa Y Y as chairwoman and Mr. Tse Ping, Mr. Lu Zhengfei, Ms. Lu Hong, and Mr. Zhang Lu Fu as members.

The NC has set out in its terms of reference the major duties and responsibilities as follows:

- formulating a formal and transparent procedure for developing nomination policies for approval by the Board, which shall take into consideration factors such as skills, knowledge, experiences, length of service, description of the role and capabilities required for a particular appointment;
- reviewing the structure, size and composition (including the mix of skills, knowledge, experience and length of service and diversity needed) of the Board at least annually; and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- making recommendation to the Board on formulation of the Board Diversity Policy and reviewing the policy from time to time to ensure its continued effectiveness;
- establishing guidelines for the recruitment of the chief executive and senior management and identifying leadership needs of and succession planning for the Company in relation to both directors and other senior executives;
- identifying individuals suitably qualified to become board members or make recommendations to the Board on the selection of individuals nominated for directorship. Academic and professional qualifications, business experience, expertise and knowledge as well as other requirements under the Listing Rules will be assessed to determine whether the nomination is suitable.;
- assessing the independence of the INED and reviewing the INEDs' annual confirmations on their independence;
- making recommendations to the Board on the re-appointment of any INED at the conclusion of his/her specified term of office; and
- making recommendations to the Board on matters relating to any actual or potential conflict of interests of directors (including prohibition of voting by the interested director).

During the year under review, no meeting of the NC was held. However, in the Board meeting held on 23 October, 2019, the Board had reviewed the structure, size and composition of the Board in accordance with the Company's board diversity policy and the procedures and criteria for nomination and resignation of directors.

BOARD DIVERSITY POLICY

The board diversity policy of the Company sets out the approach for achieving diversity of the Board, including but not limited to the appropriate balance of skills, experience and diversity of perspectives that are required to support the attainment of the Company's strategic objectives and the sustainable development of the Company. It has been established in light of the fact that there is increasing emphasis on diversity as a component for wider and more comprehensive corporate governance framework.

The NC of the Company may make recommendations to the Board for identifying the necessary criteria when considering appointment of new directors of the Company. Selection of appropriate candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the anticipated merit and contribution that the selected candidate will bring to the Board.

The NC of the Company shall monitor the board diversity policy from time to time and make necessary adjustments such that it best suits the needs of the Company. It will also monitor the implementation of the policy to ensure its continued effectiveness.

BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board held four regular meetings and one ad-hoc meeting in 2019. Details of the attendance of individual director at the Board meetings, committee meetings and general meetings during the year under review are set out below:

	Number of meeting(s) attended/held			
Directors	**The Board**	**Audit Committee**	**Remuneration Committee**	**Annual General Meetings**
Executive Directors				
Ms. Tse, Theresa Y Y	5/5	N/A	N/A	1/1
Mr. Tse Ping	3/5	N/A	N/A	0/1
Ms. Cheng Cheung Ling	5/5	N/A	N/A	1/1
Mr. Tse, Eric S Y (appointed on 23 October, 2019)	0/1	N/A	N/A	N/A
Mr. Tse Hsin	5/5	N/A	N/A	1/1
Mr. Wang Shanchun	1/5	N/A	N/A	0/1
Mr. Tian Zhoushan	4/5	N/A	N/A	0/1
Ms. Li Mingqin	5/5	N/A	N/A	1/1
Independent Non-Executive Directors				
Mr. Lu Zhengfei	5/5	4/4	1/1	0/1
Mr. Li Dakui	5/5	4/4	N/A	0/1
Ms. Lu Hong	5/5	4/4	1/1	1/1
Mr. Zhang Lu Fu	5/5	N/A	1/1	1/1
Number of meeting(s)	5	4	1	1

SECURITIES TRANSACTIONS BY DIRECTORS AND OFFICERS

The Company has adopted a code of conduct regarding securities transactions by directors and senior management/employees (the "Code") on terms no less exacting than the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules (the "Model Code").

Having made specific enquiry of all directors, it was confirmed that for the year under review all directors had fully complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

Management/employees as defined in the Code who because of their employment possess any inside information at any time are prohibited from dealing in securities of the Company to the same extent as directors.

INSURANCE COVER FOR DIRECTORS' LIABILITIES

The Company has arranged directors' and officers' liability insurance for all directors and senior officers against legal liability arising from their performance of duties. The insurance coverage is reviewed on an annual basis.

REMUNERATION OF SENIOR MANAGEMENT

There were 50 employees classified as senior management for the year ended 31 December, 2019. The details of the remuneration of senior management were disclosed as below:

	Amount of remuneration for the year			
	RMB0 – RMB1,000,000	RMB1,000,001 – RMB1,500,000	Above RMB1,500,000	Total number
Number of senior management	6	13	31	50

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and the Group, with supporting assumptions or qualifications as necessary. The directors also ensure the timely publication of the financial statements of the Company.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Company's position and prospects when the Company extends financial reports and other information to general public and regulators pursuant to the Listing Rules and other statutory requirements.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board continues to prepare the financial statements on a going concern basis.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the Group's assets.

An internal audit department has been established to review major operational and financial systems of the Group on a continuing basis and it aims to cover all significant functions within the Group on a rotational basis. The scope of the internal audit department's review and the audit programmes have been approved by the Audit Committee. The department reports directly to the Audit Committee and the Chief Executive Officer, and submits regular reports for their review in accordance with the approved programmes. For the year ended 31 December, 2019, the directors had conducted an annual review of the effectiveness of the Group's systems of risk management and internal control covering all material functions, including finance, operations, and compliance. Based on the results of the review, the directors considered that such systems were effective and adequate.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business unit with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment by the directors are required for unbudgeted expenditures.

The Board had also conducted a review of and was satisfied with the findings on the adequacy of resources, qualifications and experience, training programmes and budget of staff of the Group's accounting and financial reporting functions for the year under review.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors is set out as follows:

	Fee paid/ payable for the year (RMB'000)
Services rendered	
Audit services	4,800
Non-audit services	40

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, quarterly results announcements, other announcements and circulars made through the Company's and Stock Exchange's websites.

The Company has established a comprehensive communication policy with shareholders and shall modify the same from time to time, to best safeguard the interests of shareholders.

AGM or other general meetings of the Company provide a useful forum for shareholders to exchange views with the Board. The Chairwoman of the Board as well as the chairmen of the AC and/or RC, or in their absence, members of the committees or senior management of the Company shall be available to answer shareholders' questions. The chairman of the independent board committee shall also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

During the year under review, at the 2019 AGM, directors including the Chairwoman of the Board were present at the meeting and answered questions raised by shareholders. A representative from the external auditors, Messrs. Ernst & Young, also attended the 2019 AGM and was available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditors' report. All resolutions at the 2019 AGM were passed by way of poll and the notice of the AGM was sent to shareholders at least 20 clear business days before the meeting.

SHAREHOLDERS' RIGHT

Convening Extraordinary General Meeting And Putting Forward Proposals At Shareholders' Meetings

Pursuant to article 58 of the Articles of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company 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 an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

ENQUIRIES TO THE BOARD

Enquiries may be put forward to the Board through the Company's registered office at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The Company regularly releases latest corporate news of the Group on its website at www.sinobiopharm.com. The public are welcome to give comments and make enquiries through the Company's website.

Report of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December, 2019 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 68 to 166.

The payment for the first quarter dividend of HK$0.02 per ordinary share, the interim dividend of HK$0.02 per ordinary share, and the third quarter dividend of HK$0.02 per ordinary share totaling approximately HK$755,298,000 (equivalent to approximately RMB665,871,000) was made during 2019.

The directors recommend the payment of a final dividend of HK2 cent per ordinary share in respect of the year ended 31 December, 2019 to shareholders on Monday, 6 July, 2020.

The proposal for the distribution of the final dividend above is subject to the consideration and approval of the shareholders at the forthcoming annual general meeting of the Company ("AGM").

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:–

(a) For the purpose of determining shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 21 May, 2020 to Tuesday, 26 May, 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Wednesday, 20 May, 2020.

(b) For the purpose of determining shareholders who are qualified for the final dividend, the register of members of the Company will be closed from Tuesday, 16 June, 2020 to Friday, 19 June, 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 15 June, 2020.

BUSINESS REVIEW

A review of the business of the Group and analysis of the Group's performance during the year, including a description of the principal risks and uncertainties facing the Group and financial key performance indicators, is provided in the Chairman's Statement and Management Discussion and Analysis sections on pages 11 to 23 of this annual report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
TURNOVER	**24,234,030**	20,888,584	14,819,302	13,543,379	11,793,973
Cost of sales	**(4,926,268)**	(4,196,932)	(3,090,625)	(2,816,620)	(2,634,106)
Gross profit	**19,307,762**	16,691,652	11,728,677	10,726,759	9,159,867
Other income and gains	**862,603**	7,443,161	642,861	274,531	317,446
Selling and distribution costs	**(9,319,541)**	(8,078,544)	(5,917,879)	(5,453,137)	(4,780,162)
Administrative expenses	**(2,589,219)**	(2,189,501)	(986,945)	(1,039,434)	(1,000,281)
Other operating expenses	**(2,559,218)**	(2,344,333)	(1,602,006)	(1,526,075)	(1,104,310)
Including: Research and development costs	***(2,398,712)***	*(2,090,567)*	*(1595,312)*	*(1,368,192)*	*(1,055,329)*
Finance costs	**(229,950)**	(153,264)	(77,945)	(76,648)	(64,693)
Share of profits and losses of associates	**111,385**	59,910	409,076	297,495	263,641
PROFIT BEFORE TAX	**5,583,822**	11,429,081	4,195,839	3,203,491	2,791,508
Income tax expenses	**(889,448)**	(696,236)	(542,292)	(474,984)	(431,933)
PROFIT FOR THE YEAR	**4,694,374**	10,732,845	3,653,547	2,728,507	2,359,575
Attributable to:					
Owners of the parent	**2,706,794**	9,046,347	2,170,951	1,637,378	1,441,754
Non-controlling interests	**1,987,580**	1,686,498	1,482,596	1,091,129	917,821
	4,694,374	10,732,845	3,653,547	2,728,507	2,359,575
TOTAL ASSETS	**58,299,251**	49,780,208	20,935,339	18,383,922	13,803,796
TOTAL LIABILITIES	**(18,014,683)**	(12,230,684)	(8,324,290)	(7,706,144)	(5,061,660)
NET ASSETS	**40,284,568**	37,549,524	12,611,049	10,677,778	8,742,136
NON-CONTROLLING INTERESTS	**(9,172,910)**	(8,336,686)	(3,402,255)	(2,772,779)	(2,251,614)

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital and share options (if any) during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December, 2019, the Company bought back a total of 8,125,000 shares of the Company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") at an aggregate consideration of approximately HK$37.5 million before expenses. The bought back shares were subsequently cancelled. Further details are set out as follows:

Month	**Number of shares bought back**	**Purchase consideration per share**		**Aggregate consideration paid**
		Highest	**Lowest**	
		HK$	HK$	HK$
January	8,125,000	4.63	4.57	37,504,188

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 under review.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in notes 33 and 43 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2019, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of approximately RMB221,957,000 (2018: approximately RMB221,216,000), amounted to approximately RMB16,648,454,000 (2018: approximately RMB16,639,938,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group strives to implement its environment friendly policies through efficient use of resources and active adoption of measures to reduce environmental impacts. An environmental, health and safety management system has been established to conduct environmental impact assessment of new production facilities at the major subsidiaries of the Company. During the production process, the Group has implemented procedures on energy conservation, emission reduction, waste water and solid waste disposal for environmental protection. The Group has also encouraged staff to be environmental friendly by consuming electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. Through such policies and compliance with applicable environmental laws and regulations, the Group continues to improve its environmental performance to achieve sustainable development.

The Company will publish an Environmental, Social and Governance Report in accordance with Rule 13.91 and the reporting guide contained in Appendix 27 to the Listing Rules no later than 3 months from the publication of this Annual Report.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that stakeholder interests play a key role in its sustainable business operation and has maintained effective communications with its key stakeholders, including customers, suppliers and employees to strengthen relationships and co-operations for the long-term development of the Group.

The customers of the Group comprise distributors and hospitals. The Group actively promotes and obtains feedbacks on its products by organizing seminars and new product launching conferences. After-sale services are provided through telephone consultation and complaint handling. The Group is devoted to provide quality products and services to promote long-term co-operation with its customers so as to increase market share and improve market competitiveness.

The Group adopts a scientific approach in managing its suppliers through a standardized supplier management system with improved procurement tender mechanism. Annual evaluation on suppliers are conducted to ensure that services and products procured meet the requirements of the Group.

Employees are considered to be the most important and valuable assets of the Group. The objective of the Group's human resources management is to reward and recognize employees by providing competitive remuneration packages and implementing a sound performance evaluation system, and to promote career development and progression within the Group by providing adequate training and opportunities. A healthy, safe and happy working environment is also provided through the safety management system, cultural and sports activities and health examinations.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Group operates its business through its subsidiaries in the PRC and accordingly, relevant laws and regulations in the PRC applicable for the research, development, manufacturing, sales and distribution of pharmaceutical products, including but not limited to the laws and regulations on quality, safety, production, environmental protection, intellectual property and labour, shall be complied with. In addition, as a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange, the Company is governed by the Companies Law of the Cayman Islands, as well as the Listing Rules and the Securities and Futures Ordinance.

During the year ended 31 December, 2019, to the best knowledge of the Board, the Group does not have any incidence of non-compliance with the relevant laws and regulations that would have a significant impact on the Group's business and operations.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Ms. Tse, Theresa Y Y
Mr. Tse Ping
Ms. Cheng Cheung Ling
Mr. Tse, Eric S Y (appointed on 23 October 2019)
Mr. Tse Hsin
Mr. Wang Shanchun
Mr. Tian Zhoushan
Ms. Li Mingqin

Independent non-executive directors:
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Lu Hong
Mr. Zhang Lu Fu

In accordance with Article 86 of the Articles, Mr. Tse, Eric S Y will hold office until the conclusion of the AGM and, being eligible, offer himself for re-election at the AGM.

In accordance with Article 87 of the Articles, Ms. Cheng Cheung Ling, Mr. Wang Shanchun, Mr. Tian Zhoushan, Mr. Lu Zhengfei and Mr. Li Dakui will retire by rotation and, being eligible, offer themselves for re-election at the AGM.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to the independence guidelines under the Listing Rules and the Company considers such directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 47 to 59 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2019, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company

			Number of shares held, capacity and nature of interest			
Name of Director	Notes	**Capacity/Nature of interest**	**Directly beneficially owned**	**Through controlled corporations**	**Total**	**Approximate percentage of the Company's issued share capital**
Ms. Tse, Theresa Y Y	(1)	Beneficial owner	–	1,519,503,174	1,519,503,174	12.07%
Mr. Tse Ping	(2)	Beneficial owner	210,600,000	1,173,190,083	1,383,790,083	11.00%
Ms. Cheng Cheung Ling	(3)	Beneficial owner	132,056,500	450,000,000	582,056,500	4.62%
Mr. Tse, Eric S Y	(4)	Beneficial owner	–	2,700,000,000	2,700,000,000	21.45%
Mr. Tse Hsin		Beneficial owner	98,598,000	–	98,598,000	0.78%

Notes:

(1) Ms. Tse, Theresa Y Y held 1,519,503,174 shares of the Company through France Investment (China 1) Group Limited, 91.33% of the issued share capital of which is owned by Ms. Tse, Theresa Y Y.

(2) Mr. Tse Ping held 1,173,190,083 shares of the Company through Validated Profits Limited, the entire issued share capital of which is owned by Mr. Tse Ping.

(3) Ms. Cheng Cheung Ling held 450,000,000 shares of the Company through Chia Tai Bainian Holdings Limited, the entire issued share capital of which is owned by Ms. Cheng Cheung Ling.

(4) Mr. Tse, Eric S Y held 1,575,000,000 shares and 1,125,000,000 shares of the Company through Thousand Eagles Limited and Remarkable Industries Limited, respectively. The entire issued share capital of each of the companies is owned by Mr. Tse, Eric S Y.

Long position in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of shareholding
Mr. Tse Hsin	CT Tianqing	Beneficial owner	229,250	0.18%
	NJCTT	Beneficial owner	26,583	0.53%

Saved as disclosed above, as at 31 December, 2019, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERSONS WHO HAVE AN INTEREST AND/OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2019, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/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 which were recorded in the register required to be kept by the Company under to Section 336 of the SFO were as follows:

Long positions in shares and/or underlying shares

Name	Notes	Capacity/Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of issued share capital of the Company
Thousand Eagles Limited	(1)	Beneficial owner	1,575,000,000(L)	12.51%
France Investment (China 1) Group Limited	(2)	Beneficial owner	1,519,503,174(L)	12.07%
Validated Profits Limited	(3)	Beneficial owner	1,173,190,083(L)	9.32%
Remarkable Industries Limited	(1)	Beneficial owner	1,125,000,000(L)	8.94%
Citigroup Inc		Interest in controlled corporation	49,280,567(L)	0.39%
		Interest in controlled corporation	15,936,000(S)	0.13%
		Approved lending agent	600,878,970(P)	4.77%

Notes:

(1) Each of Thousand Eagles Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Mr. Tse, Eric S Y.

(2) France Investment (China 1) Group Limited is an investment holding company owned as to 91.33% by Ms. Tse, Theresa Y Y.

(3) Validated Profits Limited is an investment holding company wholly-owned by Mr. Tse Ping.

Save as disclosed above, as at 31 December, 2019, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors and Chief Executives' interests and short positions in share, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as set out in note 38 to the financial statements are fully-exempt from annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

Save as disclosed below, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December, 2019.

On 27 September, 2016, the Company entered into a facility agreement (the "2016 Facility Agreement") with a number of financial institutions for a three-year unsecured loan in the principal sum of USD300,000,000. Pursuant to the terms of the 2016 Facility Agreement, there were covenants regarding certain shareholding in the Company and control on the Board of the Company to be retained by Mr. Tse Ping, a substantial shareholder and a Director of the Company, and Mr. Tse Ping's family members. All outstanding principal owed by the Company under the 2016 Facility Agreement had been fully repaid in the first half of 2019.

On 9 April, 2019, the Company, as borrower, and certain financial institutions entered into another facility agreement (the "2019 Facility Agreement") in relation to a term loan facility in the aggregate principal amount of USD1,000,000,000 with a term of 36 months from the date of the Facility Agreement. Pursuant to the terms of the 2019 Facility Agreement, the Company has undertaken, among others, to ensure that certain shareholdings in the Company and control on the Board of the Company will be retained by Mr. Tse Ping, Ms. Cheng Cheung Ling, and Ms. Tse, Theresa Y Y, all being substantial shareholders and Directors of the Company, and their respective family members. Details of these performance covenants have been disclosed in the announcement of the Company dated 10 April, 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2019.

UNDERTAKING

Mr. Tse Ping has executed a deed of undertaking (the "Undertaking") in favour of the Company on 9 September, 2003 which has become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange.

Pursuant to the Undertaking, Mr. Tse has undertaken to the Company that, conditional upon the commencement of trading in the shares of the Company on the Main Board, for so long as (i) Mr. Tse, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30 per cent. of the voting rights of the Company (from time to time), and (ii) the shares shall remain traded on the Main Board, neither Mr. Tse nor any of Mr. Tse's Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (saved through Mr. Tse's interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the Undertaking:–

"Mr. Tse's Company(ies)" refers to any of the companies or other entities of which more than 50 per cent. of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse or regarding which companies or entities Mr. Tse is entitled to control the board of directors or management body of similar nature;

"Restricted Business" refers to:–

(i) the R&D, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernized Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and

(ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases.

"Territory" refers to the PRC (including Hong Kong).

The Undertaking does not apply to the following:–

(i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;

(ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse and/or his associates do not amount to more than 20 per cent. of the issued shares or other securities of the company in question; and

(iii) the investment by Mr. Tse and/or Mr. Tse's Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse or Mr. Tse's company, in either case in accordance with paragraph below.

In the event that Mr. Tse or any Mr. Tse's Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which Xian C.P. Pharmaceutical Co., Ltd. and/or Hainan Tigerlily Pharmaceutical Co., Ltd is/are engaged as at the date of the Undertaking) (the "Proposed Business"), Mr. Tse will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse and/or any Mr. Tse's Company shall be provided to the Company. The independent non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:–

(i) reject the said opportunity in its entirety; or

(ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or

(iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse (including through a Mr. Tse's Company) takes up the balance of the investment upon terms approved by the independent non-executive Directors.

EMOLUMENT POLICY

Including the Directors, the Group had 23,475 employees as at 31 December, 2019. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as employee share incentive schemes.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company has taken into consideration of their expertise and job specifications.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company had complied with all the Code Provisions set out in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the year ended 31 December, 2019 except for the deviation from Code Provision A.6.7 in relation to attendance of the AGM by Independent Non-Executive Director ("INED"). Two INEDs were unable to attend the AGM held on 5 June, 2019 due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the Model Code. Having made specific enquiry of all Directors, it was confirmed that for the year ended 31 December, 2019 all Directors had complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Group has complied with Rules 3.10 and 3.10(A) of the Listing Rules relating to appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed four INEDs including two with financial management expertise. Details of the biographies of the four INEDs have been set out on pages 50 to 51 of this annual report.

AUDIT COMMITTEE

The Audit Committee is comprised of three INEDs, namely Mr. Lu Zhengfei as the chairman and Mr. Li Dakui and Ms. Lu Hong as the members. It has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the consolidated financial statements of the Company for the year ended 31 December, 2019.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with written terms of reference in accordance with requirement of the Corporate Governance Code. Its primary duty is to make recommendations to the Board in formulating policies on remuneration packages of directors and senior management. The Remuneration Committee has three members comprising Mr. Zhang Lu Fu as the chairman and Mr. Lu Zhengfei and Ms. Lu Hong as the members.

NOMINATION COMMITTEE

The Company has established the Nomination Committee comprising Ms. Tse, Theresa Y Y as the chairwoman and Mr. Tse Ping, Mr. Lu Zhengfei, Ms. Lu Hong and Mr. Zhang Lu Fu as the members with written terms of reference in accordance with the requirement of the Corporate Governance Code. Its primary duty is to formulate nomination polices for Board and recruitment polices of senior management.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Tse, Theresa Y Y
Chairwoman

Hong Kong
30 March, 2020

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Ms. Tse, Theresa Y Y (謝其潤女士), aged 27, is the chairwoman of the Board, an executive director, and the chairman of the executive board committee and the nomination committee, respectively, of the Company. Ms. Tse is also a director of CT Tianqing and the vice chairwoman of Beijing Tide. Ms. Tse is currently a director of Karolinska Development AB (publ) (listed on NASDAQ Stockholm Exchange), and was a non-executive director of Tianjin Binhai Teda Logistics (Group) Corporation Limited (listed on GEM of the Stock Exchange). She holds a Bachelor Degree of Science in Economics from the Wharton School of University of Pennsylvania. Throughout her coursework, she focused on the study of Finance and Healthcare. Previously, she worked in the investment, finance and business development departments of several companies. As a new generation business leader, Ms. Tse was recognised as one of the "Most Outstanding Business Women in China for 2018" by Forbes China online. Ms. Tse is the daughter of Mr. Tse Ping and Ms. Cheng Cheung Ling, and the sister of Mr. Tse, Eric S Y, all being executive directors and substantial shareholders of the Company; a niece of Mr. Tse Hsin, an executive director of the Company; and a niece of each of Ms. Chia Fai and Miss Tse Wun, senior management of the Company.

Mr. Tse Ping (謝炳先生), aged 68, is the founding chairman of the Company and now serves as the Chief Executive Officer of the Company. He is responsible for the overall operations of the Group. With more than 27 years of extensive experience in investment and management in the pharmaceutical industry in China, he is currently a director of CT Tianqing, Beijing Tide, NJCTT, Jiangsu CT Fenghai, Jiangsu CT Qingjiang, and CP Qingdao. He is also a director of Shanghai Fortune World Development Co., Ltd., Tianjin Chiatai Feed Tech Co., Ltd., SYN Energy Technology Co., Ltd., Chia Tai Oversea Chinese Realty Development Co., Ltd., and Karolinska Development AB (publ) (listed on NASDAQ Stockholm Exchange), and was the Chairman of the board of director and an executive director of Lamtex Holdings Limited (listed on the Stock Exchange). Mr. Tse still serves as a director of Chia Tai Qingchunbao Pharmaceutical Co., Ltd. and a council member of the Association of Pharmaceutical Biotechnology of China.

Soon after the adoption of the open-up and reform policy by China, Mr. Tse started to develop his investment and business in China. He has been engaged in the pharmaceutical industry since 1991, having made equity investments in a dozen or so enterprises, and is one of the earliest and the most successful overseas investors in the PRC pharmaceutical industry. Led by Mr. Tse, CP Pharmaceutical Group now has developed to a large integrated life and healthcare enterprise, and its Hong Kong listed flagship Sino Biopharmaceutical Limited becomes a constituent of the Heng Seng Index, holding a leading position among all pharmaceutical stocks in the market and owning a number of national key high-technology enterprises. Adhering to the concept of technology innovation and building upon R&D system based on originality as well as imitation, the Group strives to develop international level, high-end biological drugs and innovative drugs and to achieve breakthroughs in different areas including medical services, medical equipment, the greater health fields, and mergers and acquisitions, and becomes an innovation driven life and healthcare enterprise with its business encompassing a fully integrated industry chain which spans from R&D to manufacture and sales of pharmaceutical products and covers management of chronic diseases and healthcare. Since incorporation, Sino Biopharmaceutical Limited continues to break its own record in terms of revenue and net profit, and was ranked one of the "Asia's Fab 50 Companies" by Forbes Asia for three consecutive years from 2016 to 2018 and ranked 42nd by U.S. magazine Pharm Exec's "Top 50 Companies 2019".

As a recognition for his efforts in promoting the development of the pharmaceutical industry in China, Mr. Tse was awarded a number of honours, including the prize of “World Outstanding Chinese” and an honorary Doctor Degree by the University of West Alabama, United States of America in January 2008, the “2007/2008 Asian Knowledge Management Association academician” granted by the Asian Knowledge Management Association in December 2008, and the “The Top Ten Most Leading Innovative Persons of the PRC Enterprises in 2010” jointly granted by the PRC Productivity Society and the PRC Corporation Press in June 2010.

Mr. Tse was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People’s Political Consultative Conference. He is currently the executive vice chairman of the China Overseas Chinese Entrepreneurs Association and the Beijing Overseas Chinese Chamber of Commerce, and the vice chairman of the China International Council for the Promotion of Multinational Corporations.

Mr. Tse is the father of Ms. Tse, Theresa Y Y and Mr. Tse, Eric S Y, executive directors and substantial shareholders of the Company; a first cousin of Mr. Tse Hsin, an executive director of the Company; and the brother of Ms. Chia Fai and a first cousin of Miss Tse Wun, senior management of the Company.

Ms. Cheng Cheung Ling (鄭翔玲女士), aged 56, is the vice chairwoman of the Board, an executive director, and a member of the executive board committee of the Company. She is the chairwoman of Beijing Tide and CP Qingdao. Ms. Cheng graduated from the Guanghua School of Management of Peking University and obtained a Master Degree in Business Administration. She is a also clinician. Ms. Cheng is one of the founders of CP Pharmaceutical Group and has made significant contribution to the development of business of the group in China. Having extensive experience in and a discerning vision for management and investment in the pharmaceutical industry, she spares no effort in promoting innovation and R&D capabilities in the industry. Being at the helm of Beijing Tide, Ms. Cheng advocates for innovations in R&D, production, sales, and management, and has led Beijing Tide to step up its efforts in developing international collaboration, with an aim to promote the rapid development of cutting-edge technologies for medical products in China. Under her leadership, Beijing Tide has achieved tremendous growth, riding on internationalization and innovation. Beijing Tide has become a leading company for the development of targeted drugs in China, ranked 41st among the “Top 100 Pharmaceutical Companies in China” for 2018 (awarded by the China National Pharmaceutical Industry Information Center) and recognized as an “Outstanding Industrial Enterprise for Pharmaceutical R&D Pipelines in China” for 2019 (awarded by the National Pharmaceutical Industry Information Annual Conference).

Over the years, Ms. Cheng is committed to facilitating communication and trade between Mainland China and Hong Kong, and has done remarkable work for the purposes of promoting national cohesion and attracting investments in Hong Kong and Mainland China. She is also a devoted charity supporter, actively participating in and caring for community philanthropy. The distinguished community services provided by Ms. Cheng is well recognized by various domestic and overseas organisations. She has been appointed as a Justice of the Peace by the Government of Hong Kong SAR and awarded by a number of organizations honours such as “The 11th session of the Qindao award of Qingdao City”, “A Pioneer in Pharmaceutical Industry in China for 2019”, and one of the “Top 10 Leaders in Economy in China for 2019”. Public offices held by Ms. Cheng include being the chairwoman of the Friendship Association of the Political Consultative Conference (Hong Kong Provincial Committee), a member of the Eighth, Ninth, Tenth, Eleventh and Twelfth Standing Committees of the Shaanxi Province Chinese People’s Political Consultative Conference (and the convenor of its committee members in Hong Kong), the president of Hong Kong Belt & Road General Chamber of Commerce, and the vice president of the China Female Entrepreneurs Association.

She is the mother of Ms. Tse, Theresa Y Y and Mr. Tse, Eric S Y, the executive directors and substantial shareholders of the Company.

Mr. Tse, Eric S Y (謝承潤先生), aged 24, is an executive director and a member of the executive board committee of the Company and a director of CT Tianqing. He holds a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania and a master degree in Management and Global Leadership from Schwarzman College, Tsinghua University. Before joining the Company in June 2018, Mr. Tse, Eric S Y served as the chief executive officer of Liepin North America, a reputable human resources company. Mr. Tse, Eric S Y founded the Penn Wharton China Summit during his time at university, and established the China Summit Foundation at the end of 2016. He was awarded the "Top Ten Outstanding Chinese American Youth" in 2018 (the list of which was jointly selected by the All America Chinese Youth Federation, the American Chinese Public Diplomacy Association, and the English "Los Angeles Post"). Mr. Tse, Eric S Y is the son of Mr. Tse Ping and Ms. Cheng Cheung Ling and the brother of Ms. Tse, Theresa Y Y, all being executive directors and substantial shareholders of the Company; a nephew of Mr. Tse Hsin, an executive director of the Company; and a nephew of each of Ms. Chia Fai and Miss Tse Wun, senior management of the Company.

Mr. Tse Hsin (謝炘先生), aged 50, is an executive director and a vice president of the Company. He is mainly responsible for the acquisition and merger activities of the Group. He is also the Group's spokesman. Mr. Tse Hsin graduated from the University of Hong Kong with a Bachelor's Degree (Honors) in Industrial Engineering. He joined the Group in August, 1995 as an assistant to the president of the Company and served as the general manager of Xian C.P. Pharmaceutical Co., Ltd. Mr. Tse Hsin was a council member of the first council and the executive council member of the second council of Chaozhou Natives Chamber of Commerce Beijing. He is also an executive member of the Right Protection Association for the Medical Treatment Equipment Enterprises of the Shaanxi Province, the vice chairman of the fourth council of the Foreign Invested Enterprises Association of the Shaanxi Province, the executive member of the third committee of the Shaanxi Cancer Fighting Association and the vice chairman of the World Chinese Medicine and Pharmaceutical Professional Joint Committee. He was awarded the "Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province" by the Shaanxi Provincial Government and the "Outstanding entrepreneur who cares about his staff" by the Shaanxi Foreign Invested Enterprises Association. He was a director of CT Tianqin and Beijing Tide, and is currently a director of NJCTT and CP Qingdao, a supervisor of CT Tianqing, and the president of Chia Tai Shaoyang Orthopedic Hospital. He is an uncle of Ms. Tse, Theresa Y Y and Mr. Tse, Eric S Y and a first cousin of Mr. Tse Ping, all being executive directors and substantial shareholders of the Company. He is also the brother of Miss Tse Wun and a first cousin of Ms. Chia Fai, senior management of the Company.

Mr. Wang Shanchun (王善春先生), aged 52, is the president of CT Tianqing. He graduated from Nanjing University of Chemistry in July, 1990 and joined CT Tianqing in the same year. Mr. Wang studied pharmaceutical engineering with Tianjin University from 1999 to 2002 and obtained a Master Degree. Mr. Wang has extensive management experience in the PRC pharmaceutical field. His design of the new production plant of CT Tianqing in Haizhou achieved a number of innovations in the country and obtained the first new edition national GMP certificate. He was awarded as a Jiangsu Province Technology Advanced Worker, a Jiangsu Province Model Labour, a winner of the Shanghai Technology Advancement First Honour Award, a Jiangsu Province Outstanding Entrepreneur, a Jiangsu Province Young and Middle-aged Expert with Outstanding Contribution, a Jiangsu Advanced Individual with Outstanding Contribution in Manufacture, and a National Distinguished Leader in Pharmaceutical Quality Management, and was elected as a delegate to Committee of the 13th Chinese People's Political Consultative Conference of Jiangsu Province.

Mr. Tian Zhoushan (田舟山先生), aged 56, joined the Group in April, 1997 and is responsible for the business of NJCTT. Mr. Tian is currently the general manager of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the head of production, the assistant to the president, and the vice president of CT Tianqing, and has over 30 years of experience in the pharmaceutical industry.

Ms. Li Mingqin (李名沁女士), aged 61, is currently a vice president of the Company and a director of Beijing Tide, Chia Tai Shaoyang Orthopedic Hospital, CP Boai Investment Ltd., and Jiangsu CT Qingjiang, and is principally responsible for the investment affairs of the Group. Ms. Li graduated from the Faculty of Medicine of Beijing Chinese Medicine University with a Bachelor Degree in medicine. Prior to joining the Company, Ms. Li had worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in teaching of medicines, development of new medicines and medicine management. During the period from 1992 to 1995, Ms. Li had been engaged in post-doctorate research in the Medicine School of University of Colorado, USA and the Medical College of the University of Massachusetts. Ms. Li joined the Group in March, 1997 and has 37 years of experience in the pharmaceutical industry.

Independent Non-Executive Directors

Mr. Lu Zhengfei (陸正飛先生), aged 56, is an independent non-executive director of the Company and is the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company. He received a P.h.D. Degree in Economics (financial management). Mr. Lu is currently a Distinguished Professor of Chang Jiang Scholars and supervisor of doctoral students of the Guanghua School of Management of Peking University. He had previously held various senior positions in the Department of Accounting of both the Guanghua School of Management of Peking University and the Nanjing University. He is a standing council member of the China Accounting Association and the deputy director of its Financial Management Committee and was also an expert consultant of the China Financial Accounting Standards Board, Ministry of Finance. Mr. Lu is the editor of several accounting and finance journals and has issued various publications. He is an independent director of China Cinda Asset Management Co., Ltd. and an independent supervisor of PICC Property and Casualty Company Limited, both companies being listed on the Stock Exchange, and was an independent director of Bank of China Limited (listed on the Stock Exchange) and China Nuclear Engineering & Construction Corporation Limited (listed on Shanghai Stock Exchange).

Mr. Li Dakui (李大魁先生), aged 76, joined the Company as an independent non-executive director and a member of the audit committee of the Company in September, 2004. He graduated from the Faculty of Pharmacy of Beijing Medical University (now known as the School of Pharmaceutical Sciences of Beijing University) in 1965, and obtained a Master Degree in Pharmaceutics from Peking Union Medical College ("PUMC") in 1982. He used to be the chief pharmacist of PUMC Hospital (retired in 2013) and the director of Pharmacy Department of PUMC Hospital for years. Mr. Li was a vice president of the Chinese Pharmaceutical Association, the Chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association and the vice chairman of the Chinese Practicing Pharmacist Association. He is currently an advisory member of the Chinese Pharmaceutical Committee and a vice president of the Beijing Pharmaceutical Association.

Ms. Lu Hong (魯紅女士), aged 50, joined the Company as an independent non-executive director and a member of the audit committee, the remuneration committee and the nomination committee of the Company in April, 2015. Ms. Lu has over 20 years of experience in accounting, financial management, company secretary and domestic and overseas capital operations fields. She is a member of the Chinese Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Lu has extensive knowledge of PRC and international accounting standards and the listing rules and regulations of both Hong Kong and PRC. She has been in charge of or involved in the entire process of the listing of multiple corporations in the PRC, Hong Kong, Singapore and the United States of America and quite a number of foreign and domestic investment and financing operations as well as mergers and acquisitions. She is familiar with financial analysis, budgeting, financial management and tax planning. She also has expertise in dealing with complex financing and taxation matters. Ms. Lu is an independent non-executive director of Huan Yue Interactive Holdings Limited which is listed on the Stock Exchange.

Mr. Zhang Lu Fu (張魯夫先生), aged 63, joined the Company as an independent non-executive director and the chairman of the remuneration committee and a member of the nomination committee of the Company in April, 2015. Mr. Zhang holds a Master Degree in Philosophy from the Beijing Normal University, and is currently a research associate and a part-time professor. Mr. Zhang has been working for multiple sectors of the Chinese government since 1987, including the Hong Kong branch of the Xin Hua News Agency (now known as Liaison Office of the Central People's Government in Hong Kong). Mr. Zhang has worked for a number of Hong Kong listed companies and charitable organisations on full-time and part-time bases. Mr. Zhang is a council member of the China Overseas Friendship Association, a standing council member of the Guangdong Overseas Friendship Association, a standing council member of the Shenzhen Overseas Friendship Association, and a part-time professor of the Hong Kong Academy of Management, and was a member of the Shenzhen Committee of the 4th Chinese People's Political Consultative Conference. Mr. Zhang is an independent non-executive director of Kingboard Laminates Holdings Limited and CT Environmental Group Limited, both being listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Zhang Xiquan (張喜全先生), aged 51, is the senior vice president of CT Tianqing and the director of the CT Tianqing R&D Institute. Mr. Zhang graduated from the chemistry department of Nankai University with a Master of Science degree in 1994. He takes charge of a number of studies of new drugs with expertise in drug candidate selection and joint development with collaborators. Mr. Zhang joined CT Tianqing in April, 1997. Being a leader of R&D of CT Tianqing, he was inducted into talents development programmes including Jiangsu Province Young and Middle Aged Experts with Outstanding Contribution, Six Categories of Talents Summit, and Jiangsu Province 333 Talents Project, awarded the National Technology Advancement Second Honour Award, the Jiangsu Province Technology Advancement Second Honour Award, and the Shanghai Technology Advancement Second and Third Honour Awards, and granted the State Council special allowance.

Ms. Li Chunling (李春玲女士), aged 48, is a vice president of CT Tianqing. She is responsible for finance and informatisation of CT Tianqing, as well as the rules setting, team building, and platform construction for the bidding and procurement committee of the company. Ms. Li graduated from Guizhou College of Finance and Accounting, and is a senior accountant and a certified accountant in the PRC. She had worked in audit firms and joined the Group in 1996. Ms. Li has over 20 years of experience in finance and accounting, and more than 10 years of experience in informatisation.

Mr. Tang Zhaocheng (唐兆成先生), aged 54, is a vice president of CT Tianqing, responsible for the affairs of the Party and labour union of CT Tianqing, and the general manager of LYG Runzhong. Mr. Tang joined CT Tianqing in April, 1997. He has a professional qualification in chemical engineering. Mr. Tang has been engaged in medicine production for more than 20 years, and has extensive experience in pharmaceutical production, quality management, and process advancement. He was awarded as a National Advanced Individual in Quality Control and a Jiangsu Province Outstanding Entrepreneur and was granted special allowance by the Lianyungang government.

Mr. Zhang Jie (張杰先生), aged 49, is a vice president of CT Tianqing. He graduated from Nanjing University and holds an MBA degree. Mr. Zhang joined the Group in April, 1997 and is responsible for policy matters, tendering, human resources, legal affairs, and public relations of CT Tianqing. He holds positions in a number of pharmaceutical profession associations and has rich research results on national medicines policies, in particular the policies for medical insurance and healthcare reform.

Mr. Li Jinming (李金明先生), aged 55, is a vice president of CT Tianqing. Mr. Li studied pharmacology at Chinese Pharmaceutical University, and holds an MBA degree awarded by Sun Yat-sen University. Mr. Li joined the Group in June, 2006 and is in charge of CT Tianqing University and the branding and communication center. He had worked as major district manager and deputy general manager in two well-known pharmaceutical enterprises in the PRC and has extensive sales and team management experience.

Mr. Hu Fangzhui (胡方墜先生), aged 47, is the director (vice president level) of the finance and accounts sharing center of CT Tianqing. Mr. Hu graduated from the finance department of Nanjing University of Finance & Economics in July, 1995. He is a certified accountant. Mr. Hu joined the Group in April, 1999, and has nearly 20 years of work experience. He has participated in and led many finance information platform projects and has extensive experience in management practices and finance informatisation.

Mr. Zhuang Xinglong (莊興龍先生), aged 50, is a vice president of CT Tianqing. He graduated from Heilongjiang University of Chinese Medicine and holds a Bachelor degree in Chinese medicine. Mr. Zhuang joined the Group in April, 1997 and is currently responsible for the affairs related to the office of the board of directors of CT Tianqing, as well as sales and marketing management of the company. He is also the president of Lianyungang Chia Tai Tianqing Medicines Co., Ltd. and Suzhou Tianqing Xingwei Medicines Co., Ltd. and the deputy general manager of Chia Tai Tianqing Akeso (Shanghai) Biomedical Technology Company Limited, being in charge of the management of those wholly or non-wholly owned investees of CT Tianqing engaged in drugs distribution.

Mr. Wang Xiangjian (王祥建先生), aged 49, is a vice president of CT Tianqing. He graduated from Nankai University and holds a Bachelor degree in molecular biology. Mr. Wang joined the Group in April, 1997 and is responsible for quality control of medicines, clinical monitoring and new medicine registration. He was inducted into the Lianyungang 521 talents development programme.

Mr. Wang Hong (王宏先生), aged 56, is a vice president of CT Tianqing. Mr. Wang finished his postgraduate studies in Shanghai Medical University with a Master degree in medical science in 1991, and also holds an MBA degree from the Business School of the National University of Singapore. Mr. Wang joined the Group in December, 2002, and was a director of marketing and a deputy general manager. He had been the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. for 8 years. Mr. Wang has more than 20 years of experience in sales.

Mr. Cai Fajun (蔡發軍先生), aged 50, is a vice president of CT Tianqing and the general manager of the oncology products department of the company. Mr. Cai studied drug analysis in Wuxi Medicine College and graduated from the Beijing Technology and Business University with a Bachelor degree in management. Mr. Cai joined the Group in April, 1997, and had been working in production and sales departments. He has nearly 30 years of practical experience in medicine production and sales, and has shrewd market acumen and rich sales and management experience.

Mr. Yao Qiang (姚強先生), aged 48, is a vice president of CT Tianqing and the general manager of the integrated product lines department (southern area) of CT Tianqing. He graduated from Nanjing Tech University and further studied in East China University of Science and Technology to obtain an MBA degree. Mr. Yao joined the Group in April, 1997 and had been a sales director and a deputy general manager. He has extensive practical experience in sales and management, with advanced team management concepts and innovative sales management methods.

Mr. Shi Wenjun (石文俊先生), aged 47, is a vice president of CT Tianqing and the general manager of the integrated product lines department (northern area) of the company. Mr. Shi studied Chinese Language in Nanjing Normal University and obtained a Master degree in human resources management from Xiamen University. Mr. Shi joined the Group in April, 1997 and had been a director and a deputy general manager. He has over 20 years of experience in sales and management of pharmaceutical products, having shrewd sense of market conditions and insightful and precise views.

Mr. Xia Chunguang (夏春光先生), aged 49, is a vice president of CT Tianqing, in charge of production, engineering, equipment, technology, EHS (environment, health & safety), and materials supply of CT Tianqing. He is also a deputy director of the CT Tianqing R&D Institute and the director of its Lianyungang branch. He is a researcher level senior engineer. Mr. Xia graduated from Wuhan University with a Bachelor degree in chemistry. Mr. Xia joined the Group in July, 1994 and held positions such as technician and deputy director of R&D institute. With more than 20 years of experience in development and production management of new drugs, he has led and participated in the development and production of dozens of new products of CT Tianqing.

Mr. Zhao Wei (趙偉先生), aged 43, is a deputy director (vice president level) of the CT Tianqing R&D Institute and the director of the Innovative Biopharmaceuticals Institute of CT Tianqing, in charge of the R&D of biopharmaceuticals of CT Tianqing. He is a PhD holder, a researcher level senior engineer, and an industry professor of China Pharmaceutical University. Mr. Zhao joined the Group after graduation from China Pharmaceutical University in 2006. He successively led or participated in various key national new drug development projects, and has gained practical experience in the development and management of over a dozen of new biopharmaceuticals. He has been inducted into the Jiangsu Province 333 Talents Project.

Mr. Yu Kangxin (俞康信先生), aged 41, is the deputy general manager (vice president level) of the tumor products division of CT Tianqing, in charge of sales of tumor products in the 4 major regions and 17 different provinces and cities in China. Mr. Yu graduated from Anhui University of Chinese Medicine with a Bachelor degree in Chinese medicine, and obtained an EMBA degree from Xi'an Jiaotong University and University of Texas at Arlinton. After joining the Group in 2001, he was successively engaged in different production and sales related positions including general manager of branch office and assistant to the president. With nearly 20 years of marketing and management experience in pharmaceutical industry, Mr. Yu has deep understanding of the pharmaceutical market in China.

Ms. Yang Ling (楊玲女士), aged 52, is a deputy director (vice president level) of the CT Tianqing R&D Institute. Ms. Yang graduated from the chemical engineering department of Tsinghua University, and after obtaining her Master degree from Nanjing Tech University, she was engaged in research and teaching in Nanjing Tech University. She joined the commercial sector for new drugs development after obtaining her PhD from Nanjing University in 2002. Ms. Yang subsequently joined the Group in 2005, responsible for the research and launch of new product development projects, external collaboration, and technology management for new drugs development of the CT Tianqing R&D Institute.

Mr. Shang Zhanqiang (尚戰強先生), aged 44, is the general manager (vice president level) of Nanjing Shunxin Pharmaceutical Co., Ltd. Mr. Shang graduated from Jiangxi University of Science and Technology with a Bachelor degree in mechanical engineering and automation. He is a senior engineer, a senior manager, and a production operation manager. Mr. Shang joined the Group in July, 1999, and has 20 years of experience in production technology and management. He participated in and led multiple projects of production line planning, GMP certification and field audits for production of new products, acquiring rich experience in production technology and practical management.

Ms. Geng Wenjun (耿文軍女士), aged 49, is the director (vice president level) of intellectual property rights center of CT Tianqing. Ms. Geng graduated from the Institute of Zoology of Chinese Academy of Sciences with a Master degree in science, and also obtained a Master degree in law from Chinese Academy of Social Sciences. As a qualified patent attorney, she is one of the second generation leaders in the field of intellectual property rights in China. Ms. Geng joined the Group in 2005, responsible for intellectual property rights management of CT Tianqing.

Mr. Zhong Zhaobo (仲兆柏先生), aged 51, is the deputy general manager (vice president level) of LYG Runzhong. He has profession qualification in chemical engineering. Mr. Zhong joined CT Tianqing in August, 1992. He has been engaged in pharmaceutical production for nearly 30 years, with extensive experience in process advancement, production, quality control management. He was awarded the Shanghai Science and Technology First Honour Award, and recognized as an Advanced Worker for Technology Progress in the Tenth Five-year Plan and one of the Top 10 Innovation Experts of Jiangsu Province.

Mr. Lu Songwu (陸崧武先生), aged 57, is the assistant to the president (vice president level) of CT Tianqing. Mr. Lu graduated from Jiangsu New Medical College with profession qualification in medical treatment. He joined the Group in April, 1997, and has over 20 years of management experience in pharmaceutical industry.

Mr. Sun Yuhang (孫宇航先生), aged 40, is a vice president of Beijing Tide, responsible for business development, key customers management, government affairs and training. Mr. Sun graduated from Peking University in 2002 with a Bachelor degree in pharmacology and a Master degree in pharmaceutical engineering and holds an MBA degree jointly awarded by Tsinghua University and the Australian National University. He joined Beijing Tide in October, 2003. He had served as sales representative, district manager, major district manager, sales director, division general manager, and vice president, with extensive practical experience in management practices.

Mr. Zhao Yanping (趙焰平先生), aged 38, is a vice president of Beijing Tide, responsible for R&D. Mr. Zhao is a vice-chairman of Committee on Technology of National Biotechnology Standardisation, a director of LTT Bio-Pharma Co., Ltd., the person in-charge of the new preparations division of Beijing International Technology Cooperation Base, and a director of the Beijing Water Soluble Macromolecule Gel Patch Engineering Technology Research Center. He graduated from the pharmacy college of Shenyang Pharmaceutical University with a postgraduate Master degree. Mr. Zhao is responsible for a number of key national new drugs development projects of the Ministry of Science and Technology and some technology planning projects of the Beijing Municipal Science and Technology Commission, and was recognised as an Outstanding Young Talent in Beijing for 2015, a New Star of Technology in Beijing for 2017, and a Leading Figure of Innovative Engineering – Beijing Yiqilun for 2017.

Ms. Zhu Yaojie (朱耀杰女士), aged 50, is a vice president of Beijing Tide, responsible for finance, taxation, human resources, experts affairs, medical affairs and internationalisation. Ms. Zhu graduated from Beijing University of Technology with a Bachelor degree in 1992.She had been in charge of the cost accounting department of Beijing Jeep Automobile Co. Ltd, a deputy general manager of finance of each of Jiangsu CT Fenghai and Yancheng Suhai Pharmaceutical Co. Ltd., and a director of the audit department of Sino Biopharm. Ms. Zhu joined Beijing Tide in November, 2010.

Ms. Liu Yujing (劉玉靜女士), aged 54, is a vice president of Beijing Tide, responsible for production. Ms. Liu is an expert adviser of Beijing Pharmaceutical Profession Association, and an expert of the inspection and review panel of Beijing Drug Certification Management Center. She graduated from Beijing University of Chemical Technology with a Bachelor degree. Ms. Liu joined Beijing Tide in June, 1995, and has been appointed as a vice president in 2016. She has extensive experience in management practices and has received two Beijing Science and Technology Second Honour Awards and a Daxing District Scientific Technology Advancement First Honour Award. Focusing on top-level design for manufacturing quality control system, she is committed to promoting and applying advanced practical quality control methods in an orderly and progressive way, and building a manufacturing quality control system for the company that is up to international standards.

Ms. Chen Haiyan (陳海燕女士), aged 51, is a vice president of Beijing Tide, responsible for sales management. Ms. Chen graduated from the West Anhui University and holds a Master degree in Economics from Hefei University of Technology. After joining Beijing Tide in September, 1999, she started from the entry level up, having been engaged in sales, key customers liaison, government affairs, market access, and business affairs. She has rich experience in sales management.

Mr. Hu Qishun (胡其順先生), aged 57, is a vice president of Beijing Tide, responsible for informatisation management. Mr. Hu is an executive member of the specialist committee on anesthesia of Chinese Research Hospital Association. He graduated from Southeast University with a Bachelor degree and obtained an MBA degree from Keele University, United Kingdom. Mr. Hu joined Beijing Tide in February, 2013 as a vice president and has rich practical experience in management practices.

Mr. Cao Shanhai (曹善海先生), aged 49, is a director and the Party secretary of Beijing Tide, responsible for audit, business planning and analysis. Mr. Cao is an entrepreneur mentor for master degree students of Renmin University of China, a certified accountant in the PRC and a non-practicing member of the Chinese Institute of Certified Public Accountants. He graduated from Renmin University of China with a Master degree. Mr Cao joined Beijing Tide in January, 2013. He has many years of experience in financial management, internal audit and sales management.

Mr. Yang Yong (楊勇先生), aged 47, is a vice president of Beijing Tide, responsible for strategic planning and business development, repository, equipment management and procurement. Mr. Yang graduated from Capital University of Economics and Business with a Master degree in management. He is also a certified accountant in the PRC as well as Canada. After joining Beijing Tide in December, 2012, he held positions including director of the president's office, sales director, vice president responsible for procurement and project management, and deputy director of finance of the company's subsidiaries.

Mr. Zhao Hailiang (趙海亮先生), aged 41, is a vice president of Beijing Tide, responsible for investment. Mr. Zhao graduated from China University of Mining and Technology with a Bachelor degree. He joined Beijing Tide in November, 2009, and has more than 15 years of experience in investment.

Mr. Zhang Zhenqian (張震乾先生), aged 50, is the executive deputy general manager of NJCTT. He is an engineer and holds an MBA degree. Mr. Zhang joined the Group in April, 1997 and is responsible for marketing and sales and operations of NJCTT. Graduated from Xuzhou College of Engineering, Mr. Zhang has completed the studies in EMBA program of Guanghua Management School of Peking University. Mr. Zhang was a branch manager and a major district manager of CT Tianqing and has over 20 years of experience in pharmaceutical industry.

Mr. Wang Kuanqi (王寬起先生), aged 53, is the senior deputy general manager of NJCTT and is in charge of production. Mr. Wang graduated from Changzhou Chemical Institute with profession qualification in organic synthesis. He joined CT Tianqing in 1988. He holds a Bachelor degree in pharmacology from China Pharmaceutical University and an EMBA degree from both of Shanghai Fudan University and National Taiwan University. He was an officer of production lines, a production manager, a director of production quality and an assistant to general manager. He has 32 years of experience in pharmaceutical industry.

Mr. Zhang Ling (張翎先生), aged 46, is a deputy general manager and the secretary to the board of directors of NJCTT, being responsible for human resources and board related affairs. Mr. Zhang graduated from the refined chemicals department of Zhengzhou Food Institute with a Bachelor degree in engineering. Mr. Zhang joined NJCTT in September, 2002, having served as a director of the general manager office, human resources director, assistant to general manager, etc., and has been the secretary to the board of directors since then. He has more than 10 years of experience in administration and human resources management, with profound knowledge of human resources management.

Mr. Wang Hongqi (王紅旗先生), aged 54, is the deputy general manager of NJCTT, and is responsible for business affairs and sales and marketing. Mr. Wang graduated from the accounting faculty of Xuzhou School of Supply and Marketing and obtained a MBA degree from Nanjing University and a postgraduate diploma in MBA from Hong Kong Asia Business College. Mr. Wang joined CT Tianqing in July, 2002 and had been its branch manager, major district manager, and sales and marketing director. He has rich experience in sales and marketing management, with nearly 20 years of experience in pharmaceutical sales.

Mr. Zhang Yangqing (張揚清先生), aged 51, is currently a deputy general manager of finance department of NJCTT. He graduated from the engineering management faculty of Central South University with a Bachelor degree in industrial engineering management in 1990. He is a senior accountant, a certified accountant and a practicing registered real estate appraiser. He was a member of National Development and Reform Commission of Ziyang District of Yiyang City in Hunan Province, a civil servant of Housing Administrative Bureau of Yiyang City, an audit manager of Hunan Kaiyuan CPA, a financial controller of Chengdu Jiuzhitang Jinding Pharmaceutical Ltd., a deputy head of finance department and a director of marketing centre of Jiuzhitang Co., Ltd., the head of audit department of CT Tiangqing, finance manager of the Group, and a deputy general manager of finance department of Jiangsu CT Fenghai.

Ms. Zhu Chunxia (朱春霞女士), aged 43, is a deputy general manager of NJCTT, being responsible for R&D and quality control. Ms. Zhu graduated from the refined chemicals department of Southeast University and obtained an EMBA degree from Peking University. She joined NJCTT in 2013, and had been a director of quality control and an assistant to the general manager, with extensive management experience.

Mr. Wang Minggang (王明剛先生), aged 63, is a Master degree postgraduate, a practicing doctor and a senior engineer, and is the vice president and the general manager of CP Qingdao. Mr. Wang joined the Group in September, 2008. He had worked in some large domestic and foreign pharmaceutical companies and was the general manager of Qingdao Haier Pharmaceutical Co. Ltd and the head of the biological division of the Haier Group. He has more than 30 years of management experience in pharmaceutical industry. Mr. Wang is the chairman of Qingdao Pharmaceutical Profession Association, a vice chairman of the Shandong Province Pharmaceutical Profession Association, and was a deputy of the 15th and 16th Municipal People's Congress of Qingdao City. Mr. Wang has received various recognitions in recent years, such as Qingdao Distinguished Talent, Shandong Province Technology Advancement Second Honour Award, Qingdao Technology Advancement Third Honour Award, Shangdong Province Invention and Entrepreneurship First Honour Award, one of the Top 10 Entrepreneurs of Zhongde Industrial Park, and a Leader in Brand Building for "Quality Shandong Pharmaceuticals".

Mr. Chen Yangsheng (陳陽生先生), aged 52, graduated from chemistry department of Wuhan University and is a postgraduate student, a practicing pharmacist, and a research associate. He is a vice president in R&D of CP Qingdao. Mr. Chen was engaged in new drugs development with the National Institute of Pharmaceutical Research and Development Center after his graduation in 1993, and joined the then Qingdao Haier Pharmaceutical Co. Ltd. as the head of R&D in 1998. He has more than 25 years of experience in new drugs development and management. Mr. Chen is a review expert of the national provincial level technology projects, an executive vice chairman of the medicinal chemistry specialist committee of Qingdao Pharmaceutical Association, and a council member of Qingdao Marine Biomedical Technology Innovation Center. Awards and recognitions received by Mr. Chan in recent years include Qingdao Municipal Government Expert Special Allowance, Shandong Province Technology Advancement Second Honour Award, Qingdao Technology Innovation Second Honour Award, and Qingdao Technology Advancement Third Honour Award.

Ms. Ren Li (任莉女士), aged 47, graduated from medicinal chemistry faculty of Ocean University of China and is a PhD fellow, a practicing pharmacist, and a senior engineer. She is a vice president of CP Qingdao. Ms. Ren joined the then Qingdao Haier Pharmaceutical Co. Ltd. in 1997 after her graduation, responsible for new drugs development, and had been the head of R&D, the head of marketing, and a deputy general manager of the company. She has gained more than 20 years of experience in pharmaceutical industry for new drugs development, marketing, production, quality control, and construction management. Ms. Ren is an executive vice chairman of the marine medicine specialist committee of Qingdao Pharmaceutical Association, an executive vice chairman of the medicine engineering specialist committee of Qingdao Pharmaceutical Association, and an executive member of the editorial board of the Chinese Journal of Osteoporosis. Awards and recognitions received by Ms. Ren in recent years include Distinguished Talent of Qingdao Xihaian New District, Shandong Province Technology Advancement Second Honour Award, and Qingdao Technology Advancement Third Honour Award.

Mr. Xia Wenyu (夏文余先生), aged 51, has a professional qualification in finance and accounting discipline at tertiary education level and is a Senior Economist. He graduated from the post-graduate MBA programme of the Renmin University of China. He has been the general manager and a director of Jiangsu CT Fenghai since September, 2014 and previously served as the head of finance department, deputy head of corporate restructuring committee, manager of financial planning department, board secretary, assistant to general manager and manager of logistic department, sales director, and deputy general manager of Jiangsu Fenghai. He has ample experience in corporate management, marketing, human resources and financial management, with over 30 years of experience in the pharmaceutical industry. He is the vice president of the Jiangsu Province Pharmaceutical Profession Association and a standing council member of the China Price Association and the Jiangsu Province Medical Insurance Committee, and was recognized as a distinguished entrepreneur of Yancheng City.

Mr. Liu Haihua (劉海華先生), aged 56, is a deputy general manager of Jiangsu CT Fenghai, the president of its labour union, and a senior engineer. Mr. Liu studied chemistry in university, completed a postgraduate MBA programme of Renmin University of China, and in 2007, took part in the Thousand Talents programme of the Jiangsu Province in Hong Kong. He had been the head of equipment department, the head of production, an assistant to factory director, a deputy sales director, and a deputy director of production quality control. With over 20 years' experience in management, he has profound knowledge in production quality control, corporate management, and project management, and has published various articles in major national journals.

Mr. Zhu Yongqiang (朱永強先生), aged 43, is a PhD fellow and a professor in medicinal chemistry. Mr. Zhu obtained a doctoral degree from Peking University School of Pharmaceutical Studies and had been engaged in post-doctorate research in the University of Michigan, USA. He has been a deputy general manager of Jiangsu CT Fenghai since December, 2015. He was the vice president and president of the R&D Institute and an assistant to the general manager of Jiangsu CT Fenghai, and had worked as a director of laboratory of medicinal chemistry of Simcere Pharmaceutical Co., Ltd. He has more than 15 years of experience in pharmaceutical industry.

Mr. Zhu Yong (朱勇先生), aged 53, has been the marketing director of Jiangsu CT Fenghai since 2005, and is mainly responsible for marketing and academic promotion of new products, establishing the brand name of Fenghai and formulating successful marketing strategies for leading and developing market which resulted in the widespread recognition of the image of "New Model of Sugar Infusion Solution" of Jiangsu CT Fenghai by the pharmaceutical industry. In 2008, as a sales vice president, he initiated Jiangsu CT Fenghai's characteristic mixed marketing model with success. In 2011, he was the executive vice president of Jiangsu CT Fenghai, responsible for R&D, marketing and human resources, having set up a drugs R&D centre in Nanjing and established the training system for all levels of staff. In October, 2014, he was appointed as the executive vice president of Jiangsu CT Qingjiang and was responsible for R&D, human resources and office administration. From January, 2015 onwards, he is the general manager and is responsible for overall management of Jiangsu CT Qingjiang, having successfully re-engineered its sales system, proposed the "RMB100 million" strategy for key products, and driven the sales of products like Glucosamine Hydrochloride and Cefaclor and Bromhexine Hydrochloride to exceed the RMB100 million targets. He was awarded a May 1 Labour Medal by the Huian City Peoples' Government in 2015, and recognized as a Jiangsu Province Distinguished Manager for User Satisfaction and granted an advancement in technology award in 2017.

Mr. Liu Zong (劉宗先生), aged 55, is a senior engineer and holds a Bachelor degree in science from China Pharmaceutical University. Mr. Liu joined Jiangsu CT Qingjiang (previously known as Jiangsu Province Qingjiang Pharmaceutical Factory) in July, 1989. He was appointed as an assistant to general manager in 2000 and was responsible for quality control and new products development, helping the company obtain the GMP certificate for company relocation smoothly. He has been a deputy general manager and the secretary of board of directors of Jiangsu CT Qingjiang since 2004, being in charge of international trade of medicinal raw materials, product sales, and new products development and having successfully developed overseas market. He has rich experience in pharmaceutical industry.

Mr. Chen Sheng (陳成先生), aged 40, graduated from the accounting department of Nanjing University of Finance & Economics with a Bachelor degree in management, and is a certified registered tax agent in PRC, a certified accountant and a senior accountant. Mr. Chen joined Jiangsu CT Qingjiang in July, 2012 as an assistant to financial controller and is now a deputy general manager and the financial controller. During his tenure, Mr. Chen actively promotes the transformation and upgrade of finance management services to support sales activities with success. Under his management, the results of the company have continuously improved and the company was ranked as one of the top 50 tax contributors in the region in 2017. Mr Chen has extensive management experience in finance.

Ms. Ma Jiayin Jennie (馬佳音女士), aged 44, Group Chief Financial Officer, is responsible for financial matters of the Group. Ms. Ma obtained her MBA from Columbia Business School and Bachelor of Science from New York University Stern School of Business. She is a Certified Public Ac-countant and a CFA Charterholder, and has over 20 years of experience with large multinationals in various accounting and finance capacities.

Ms. Yu Chau Ling (余秋玲女士), aged 51, is an assistant vice president, the financial controller and the qualified accountant of the Company. She graduated from the University of Hong Kong with a Bachelor degree in social sciences and in 2005 obtained an MBA Degree from The Open University of Hong Kong. She is a fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, respectively. Ms. Yu joined the Company in February, 2003 and has extensive working experience in international audit firm and listed companies.

Dr. Ye Wei Nong (葉衛農博士), aged 57, is an assistant to the founding chairman and general manager of the R&D department of the Company. He is responsible for biotechnology development of the Group. He is currently a director of China Biotech & Drug Development Limited and Jiangsu CT Fenghai, and was a director of CPYH Biotechnology (Shanghai) Co., Ltd. In 1983, Dr. Ye graduated from Sun Yat-sen University with a Bachelor degree in biochemistry. In 1989, Dr. Ye obtained a doctoral degree in microbiology from the Institut National des Sciences Appliquees (INSA) de Toulouse of France. He also obtained a certificate of study for the post-graduate MBA programme of food technology and marketing from Ecole Superieure de Commerce (ESC) de Toulouse of France. Prior to joining the Group in July, 2002, he worked in Europe and Hong Kong for biotechnology and pharmaceutical companies. Dr. Ye was a member of the Advisory Committee on Applied Biology and Chemical Technology of The Hong Kong Polytechnic University from February, 2006 to September, 2014. He was also a council member of the 8th Subcommittee of Industrial Biochemistry and Molecular Biology under the Chinese Society of Biochemistry and Molecular Biology.

Ms. Chia Fai (謝輝女士), aged 62, is an assistant to the founding chairman and a vice president of the Company. Ms. Chia joined the Group in November, 1991 and has more than 30 years of experience in finance and accounting. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Company Limited, Evon Industries Limited, Talent Forward Limited, Sino Biopharmaceutical (Beijing) Limited and Magnificent Technology Limited.

Miss Tse Wun (謝瑗小姐), aged 53, is an assistant to the founding chairman of the Company. Miss Tse joined the Group in November, 1991. She is mainly responsible for administration, finance and investment affairs of the Group's Hong Kong office. Miss Tse graduated from the University of Oregon with a Bachelor of Science degree. She was formerly a director of Shenzhen 999 Pharmaceutical Co., Ltd. and has more than 20 years of experience in finance and investment.

Mr. Chan Oi Nin Derek (陳凱年先生), aged 52, was appointed as company secretary of the Company in August, 2015. Mr. Chan has over 20 years of experience in accounting and auditing and, before joining the Company, was the company secretary of another company listed on the Stock Exchange. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan received a Bachelor of Science degree from the Chinese University of Hong Kong in 1989 and an MBA degree from Monash University in 1995.

Corporate Information

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors
Ms. Tse, Theresa Y Y *(Chairwoman)*
Mr. Tse Ping *(Chief Executive Officer)*
Ms. Cheng Cheung Ling *(Vice Chairwoman)*
Mr. Tse, Eric S Y
Mr. Tse Hsin
Mr. Wang Shanchun
Mr. Tian Zhoushan
Ms. Li Mingqin

Independent Non-executive Directors
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Lu Hong
Mr. Zhang Lu Fu

Executive Board Committee
Ms. Tse, Theresa Y Y *(Chairwoman)*
Mr. Tse Ping
Ms. Cheng Cheung Ling
Mr. Tse, Eric S Y
Mr. Tse Hsin

AUDIT COMMITTEE

Mr. Lu Zhengfei *(Chairman)*
Mr. Li Dakui
Ms. Lu Hong

REMUNERATION COMMITTEE

Mr. Zhang Lu Fu *(Chairman)*
Mr. Lu Zhengfei
Ms. Lu Hong

NOMINATION COMMITTEE

Ms. Tse, Theresa Y Y *(Chairwoman)*
Mr. Tse Ping
Mr. Lu Zhengfei
Ms. Lu Hong
Mr. Zhang Lu Fu

COMPANY SECRETARY

Mr. Chan Oi Nin Derek

JOINT QUALIFIED ACCOUNTANTS

Ms. Jennie Ma, CFA, CPA
Ms. Yu Chau Ling, FCCA, CPA

AUTHORISED REPRESENTATIVES

Mr. Tse Ping
Mr. Chan Oi Nin Derek

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Miss Tse Wun

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Hong Kong

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No. 43 North Tong-guan Road, Xinpu
Lianyungang
Jiangsu Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House-3rd Floor
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Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Level 54, Hopewell Centre
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REGISTERED OFFICE

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Independent Auditor's Report

EY 安永

To the shareholders of Sino Biopharmaceutical Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Sino Biopharmaceutical Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 166, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter

Impairment assessment of the carrying value of goodwill	***How our audit addressed the key audit matter***
The Group had goodwill of approximately RMB13,897 million as at 31 December 2019 arising from past acquisitions, representing 24% of the Group's total assets. These balances are allocated to 13 cash-generating units ("CGUs") which are assessed annually for impairment using discounted cash-flow ("DCF") models of each CGU's recoverable value compared to the carrying value of the assets and goodwill. Due to the complexity of the impairment assessment process and the significant management judgements involved in making the key assumptions, such as discount and long-term growth rates which are affected by expected future internal and external market conditions, and the significant carrying amount of the goodwill, we identified impairment as a key audit matter. The Group's specific disclosure about goodwill is included in note 2.4 *Summary of Significant Accounting Policies*, note 3 Significant Accounting Judgements and Estimates, and note 16 Goodwill to the financial statements.	Our audit procedures included, among others, assessing the competence, capabilities and objectivity of its external valuers and involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group and external experts, in particular, the discount rate and the long-term growth rate. We assessed reasonableness of the forecasts used in the impairment test by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We also read and assessed the Group's disclosures of goodwill.

Key audit matters (continued)

Key audit matter	
Valuation of buildings recorded in property, plant and equipment	***How our audit addressed the key audit matter***
The buildings of the Group, which represented 4% of the total assets of the Group, were valued at fair value at an amount of RMB2,501 million as at 31 December 2019. Management determines the fair value of the Group's buildings on a yearly basis and engaged an external appraiser to perform the valuation as at 31 December 2019. The valuation of the buildings at fair value is highly dependent on estimates and assumptions, such as replacement cost, rate of newness and adjusted market price. Given the size and complexity of the valuation of buildings and the importance of the disclosures relating to the assumptions used in the valuation, we identified valuation of buildings as a key audit matter. The Group's related disclosures are included in note 2.4 *Summary of Significant Accounting Policies – Property, plant and equipment and depreciation* and note 13 *Property, Plant and Equipment* to the financial statements.	We evaluated the objectivity, independence and expertise of the external appraiser. We involved our own internal property valuation experts in assisting us to evaluating the valuation methodology and assessed the assumptions and estimates made by management and the external appraiser by comparing the inputs used in the model to externally and internally derived data.
Capitalisation of development costs	
During the year ended 31 December 2019, research and development costs of RMB2,652 million were incurred, of which RMB253 million were capitalised into other intangible assets for the development of new pharmaceutical products. The expenditure on development activities was capitalised when all the criteria mentioned in note 2.4 *Summary of Significant Accounting Policies – Intangible assets (other than goodwill)* were satisfied. Significant management estimation and judgement were required in determining whether the capitalised costs met the capitalisation criteria. The Group's related disclosures are included in note 2.4 *Summary of Significant Accounting Policies – Intangible assets (other than goodwill)*, note 3 *Significant Accounting Judgements and Estimates-Estimation uncertainty* and note 17 *Intangible Assets* to the financial statements.	We assessed the compliance of capitalisation criteria used by the Group with those mentioned in note 2.4 Summary of Significant Accounting Policies-Intangible assets (other than goodwill), evaluating the management judgement on the differentiation between research phase and development phase by reading trial readouts and regulatory announcements, evaluating management judgement on the satisfaction of criteria through comparison to industry practice, reviewing the expenditure documents which are individually accounted for development costs, obtaining an understanding of the Group's internal governance and approval process and examining the internal commercial and technical feasibility reports. We also interviewed a range of key management in charge of research, development and commerce.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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 when it becomes available 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.

Responsibilities of the directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Wing Kwong.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

30 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**24,234,030**	20,888,584
Cost of sales		**(4,926,268)**	(4,196,932)
Gross profit		**19,307,762**	16,691,652
Other income and gains	5	**862,603**	7,443,161
Selling and distribution costs		**(9,319,541)**	(8,078,544)
Administrative expenses		**(2,589,219)**	(2,189,501)
Other expenses		**(2,559,218)**	(2,344,333)
Including: Research and development costs		***(2,398,712)***	*(2,090,567)*
Finance costs	7	**(229,950)**	(153,264)
Share of profits and losses of associates		**111,385**	59,910
PROFIT BEFORE TAX	6	**5,583,822**	11,429,081
Income tax expense	10	**(889,448)**	(696,236)
PROFIT FOR THE YEAR		**4,694,374**	10,732,845
Attributable to:			
Owners of the parent		**2,706,794**	9,046,347
Non-controlling interests		**1,987,580**	1,686,498
		4,694,374	10,732,845
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		**RMB21.58 cents**	RMB73.16 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**4,694,374**	10,732,845
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**51,560**	83,552
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**51,560**	83,552
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**23,632**	(68,025)
Gains on property revaluation	**61,016**	97,265
Income tax effect	**(8,516)**	(15,356)
	52,500	81,909
Share of other comprehensive income of associates	**5,689**	6,624
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**81,821**	20,508
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**133,381**	104,060
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,827,755**	10,836,905
Attributable to:		
Owners of the parent	**2,818,699**	9,117,482
Non-controlling interests	**2,009,056**	1,719,423
	4,827,755	10,836,905

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	6,913,728	5,804,369
Investment properties	14	563,395	367,664
Right-of-use assets	15	1,293,478	–
Prepaid land lease payments	15	–	1,222,099
Goodwill	16	13,896,976	13,896,976
Intangible assets	17	7,703,642	8,349,174
Investments in associates	18	808,443	326,329
Equity investments designated at fair value through other comprehensive income	19	1,211,084	743,280
Deferred tax assets	30	580,944	470,559
Prepayments	24	414,466	61,633
Total non-current assets		33,386,156	31,242,083
CURRENT ASSETS			
Inventories	22	1,658,597	1,209,160
Trade and bills receivables	23	2,712,209	2,924,045
Prepayments, other receivables and other assets	24	6,903,251	5,728,193
Amounts due from related parties	38	151,588	–
Equity investments designated at fair value through profit or loss	21	491,357	146,814
Financial assets at fair value through profit or loss	20	1,084,883	1,853,871
Cash and bank balances	25	11,911,210	6,676,042
Total current assets		24,913,095	18,538,125
CURRENT LIABILITIES			
Trade and bills payables	26	1,809,445	1,832,166
Tax payable		189,873	246,498
Other payables and accruals	27	5,433,879	4,684,382
Interest-bearing bank borrowings	28	666,749	2,905,575
Lease liabilities	15	23,079	–
Total current liabilities		8,123,025	9,668,621
NET CURRENT ASSETS		16,790,070	8,869,504
TOTAL ASSETS LESS CURRENT LIABILITIES		50,176,226	40,111,587

	Notes	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**50,176,226**	40,111,587
NON-CURRENT LIABILITIES			
Deferred government grants	29	**480,652**	532,941
Interest-bearing bank borrowings	28	**7,884,802**	507,066
Lease liabilities	15	**41,270**	–
Deferred tax liabilities	30	**1,484,934**	1,522,056
Total non-current liabilities		**9,891,658**	2,562,063
Net assets		**40,284,568**	37,549,524
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	**278,451**	278,846
Treasury shares		**(412,837)**	(457,288)
Reserves	33	**31,246,044**	29,391,280
		31,111,658	29,212,838
Non-controlling interests		**9,172,910**	8,336,686
Total equity		**40,284,568**	37,549,524

Tse Ping
Director

Tse Hsin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

		Attributable to owners of the parent												
	Note	Share capital RMB'000 (note 31)	Share premium account RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Fair value Reserve RMB'000	Contributed surplus RMB'000	Reserve funds RMB'000 (note 33)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017		170,033	1,128,455	–	(371,473)	251,091	–	22,691	1,877,959	(466,887)	6,596,925	9,208,794	3,402,255	12,611,049
Effect of adoption of HKFRS 9		–	–	–	–	–	53,284	–	–	–	–	53,284	–	53,284
At 1 January 2018 (restated)		170,033	1,128,455	–	(371,473)	251,091	53,284	22,691	1,877,959	(466,887)	6,596,925	9,262,078	3,402,255	12,664,333
Profit for the year		–	–	–	–	–	–	–	–	–	9,046,347	9,046,347	1,686,498	10,732,845
Other comprehensive income for the year:														
Fair value changes of financial assets		–	–	–	–	–	(68,025)	–	–	–	–	(68,025)	–	(68,025)
Surplus on revaluation of buildings		–	–	–	–	50,849	–	–	–	–	–	50,849	31,060	81,909
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	81,687	–	81,687	1,865	83,552
Exchange differences related to associates		–	–	–	–	–	–	–	–	6,624	–	6,624	–	6,624
Total comprehensive income for the year		–	–	–	–	50,849	(68,025)	–	–	88,311	9,046,347	9,117,482	1,719,423	10,836,905
Contribution from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	27,561	27,561
Acquisition of a subsidiary		20,576	12,127,449	–	–	–	–	–	–	–	–	12,148,025	4,229,406	16,377,431
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	(1,041,959)	(1,041,959)
Repurchase of shares for cancellation		–	–	(192,803)	–	–	–	–	–	–	–	(192,803)	–	(192,803)
Repurchase of shares under share award scheme		–	–	(411,616)	–	–	–	–	–	–	–	(411,616)	–	(411,616)
Cancellation of treasury shares		(681)	(146,450)	147,131	–	–	–	–	–	–	–	–	–	–
Issue of bonus shares		88,918	(88,918)	–	–	–	–	–	–	–	–	–	–	–
Final 2017 dividend declared	11	–	–	–	–	–	–	–	–	–	(146,131)	(146,131)	–	(146,131)
Interim 2018 dividend		–	–	–	–	–	–	–	–	–	(564,197)	(564,197)	–	(564,197)
Transfer from retained profits		–	–	–	–	–	–	–	472,488	–	(472,488)	–	–	–
At 31 December 2018		278,846	13,020,536*	(457,288)	(371,473)*	301,940*	(14,741)*	22,691*	2,350,447*	(378,576)*	14,460,456*	29,212,838	8,336,686	37,549,524

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

		Attributable to owners of the parent												
	Note	Share capital RMB'000 (note 31)	Share premium account RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Contributed surplus RMB'000	Reserve funds RMB'000 (note 33)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2018		278,846	13,020,536	(457,288)	(371,473)	301,940	(14,741)	22,691	2,350,447	(378,576)	14,460,456	29,212,838	8,336,686	37,549,524
Effect of adoption of HKFRS 16		-	-	-	-	-	-	-	-	-	-	-	-	-
At 1 January 2019 (restated)		278,846	13,020,536	(457,288)	(371,473)	301,940	(14,741)	22,691	2,350,447	(378,576)	14,460,456	29,212,838	8,336,686	37,549,524
Profit for the year		-	-	-	-	-	-	-	-	-	2,706,794	2,706,794	1,987,580	4,694,374
Other comprehensive income for the year:														
Fair value changes of financial assets		-	-	-	-	-	23,632	-	-	-	-	23,632	-	23,632
Surplus on revaluation of buildings		-	-	-	-	31,713	-	-	-	-	-	31,713	20,787	52,500
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	50,871	-	50,871	689	51,560
Exchange differences related to associates		-	-	-	2,429	-	-	-	-	3,260	-	5,689	-	5,689
Total comprehensive income for the year		-	-	-	2,429	31,713	23,632	-	-	54,131	2,706,794	2,818,699	2,009,056	4,827,755
Contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	28,339	28,339
Acquisition of a subsidiary		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	(1,201,171)	(1,201,171)
Repurchase of shares for cancellation		-	-	(32,051)	-	-	-	-	-	-	-	(32,051)	-	(32,051)
Repurchase of shares under share award scheme		-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellation of treasury shares		(395)	(76,107)	76,502	-	-	-	-	-	-	-	-	-	-
Issue of bonus shares		-	-	-	-	-	-	-	-	-	-	-	-	-
Final 2018 dividend declared		-	-	-	-	-	-	-	-	-	(221,957)	(221,957)	-	(221,957)
Interim 2019 dividend	11	-	-	-	-	-	-	-	-	-	(665,871)	(665,871)	-	(665,871)
Transfer from retained profits		-	-	-	-	-	-	-	715,814	-	(715,814)	-	-	-
At 31 December 2019		278,451	12,944,429*	(412,837)	(369,044)*	333,653*	8,891*	22,691*	3,066,261*	(324,445)*	15,563,608	31,111,658	9,172,910	40,284,568

* These reserve accounts comprise the consolidated reserves of approximately RMB 31,246,044,000 (2018: approximately RMB29,391,280,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,583,822**	11,429,081
Adjustments for:			
Finance costs	7	**229,950**	153,264
Share of profits and losses of associates		**(111,385)**	(59,910)
Bank interest income	5	**(245,359)**	(145,868)
Interest income on convertible bonds	5	**(12,350)**	(16,855)
Investment income	5	**(295,159)**	(383,310)
Dividend income from equity investments at fair value through other comprehensive income	5	**(3,888)**	(12,156)
Depreciation of property, plant and equipment	13	**541,471**	426,151
Revaluation (appreciation)/deficit of property, plant and equipment	6.14	**(5,031)**	1,421
Depreciation of investment properties	6	**26,206**	22,860
Depreciation of right-of-use assets/Recognition of prepaid land lease payments	6.15	**93,178**	34,100
Amortisation of intangible assets	6.17	**898,351**	727,113
Loss on disposal of items of property, plant and equipment	5,6	**14,785**	3,374
Gain on deemed disposal of an associate		**–**	(6,598,691)
Loss on disposal of equity investments designated at fair value through other comprehensive income		**3,313**	–
Gain on disposal of financial assets at fair value through profit or loss		**(77,244)**	–
Fair value (gain)/loss, net:			
Equity investments designated at fair value through profit or loss		**9,232**	53,671
Financial assets at fair value through profit or loss	5,6	**(4,544)**	(10,239)
Impairment of an investment in an associate	6	**6,500**	41,448
Impairment of trade and bills receivables	6	**15,527**	8,908
Impairment of prepayments, deposits and other receivables	6	**38,003**	15,250
		6,705,378	5,689,612
Increase in inventories		**(449,437)**	(102,160)
Increase/(decrease) in trade and bills receivables		**196,309**	(436,208)
Increase in prepayments, other receivables and other assets		**(199,253)**	(466,652)
(Decrease)/increase in trade and bills payables		**(90,915)**	875,983
Increase in other payables and accruals		**316,935**	377,842
Decrease in deferred government grants		**(52,289)**	(5,506)
Cash generated from operations		**6,426,728**	5,932,911
Profits tax paid		**(1,102,094)**	(838,547)
Net cash flows from operating activities		**5,324,634**	5,094,364

	Notes	2019 RMB'000	2018 RMB'000
Net cash flows from operating activities		**5,324,634**	5,094,364
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**246,360**	145,868
Investment income received		**295,159**	383,310
Dividends received from unlisted investments		**3,888**	12,156
Purchases of items of property, plant and equipment		**(1,449,485)**	(1,549,979)
Purchases of equity investments designated at fair value through other comprehensive income		**(468,921)**	(231,271)
Proceeds from disposal of an equity investments designated at fair value through other comprehensive income		**27,420**	–
Net cash (outflow)/inflow for acquisition of a subsidiary		**(219,303)**	1,058,548
Decrease in wealth management products recorded in financial assets at fair value through profit or loss		**591,689**	985,637
Increase in wealth management products recorded in other receivables		**(1,276,570)**	(2,220,940)
(Increase)/decrease in equity investments designated at fair value through profit or loss		**(310,326)**	743,241
Proceeds from disposal of items of property, plant and equipment		**63,094**	17,161
Additions to intangible assets		**(252,819)**	(127,040)
Investment in associates		**(172,363)**	–
Loan to an associate		**(62,061)**	3,500
Increase in prepaid land lease payments		**(31,659)**	(15,720)
Increase in other investing prepayments		**(139,460)**	(18,654)
(Increase)/decrease in time deposits with original maturity of more than three months		**(838,987)**	55,083
Proceeds from disposal of a subsidiary		**170,000**	143,000
Net cash flows used in investing activities		**(3,824,344)**	(616,100)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**8,394,993**	398,484
Repayment of bank loans		**(3,196,025)**	(93,819)
Dividends paid		**(819,688)**	(710,328)
Interest paid		**(339,602)**	(153,264)
Payment of lease liability		**(33,959)**	–
Dividends paid to non-controlling shareholders		**(1,201,171)**	(1,041,959)
Repurchase of shares		**(32,050)**	(604,419)
Contribution from non-controlling shareholders		**28,339**	27,561
Net cash flows from/(used in) financing activities		**2,800,837**	(2,177,744)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,301,127**	2,300,520
Cash and cash equivalents at beginning of year		**6,235,029**	3,692,044
Effect of foreign exchange rate changes, net		**95,054**	242,465
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,631,210**	6,235,029
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, unrestricted	25	**4,340,181**	3,956,986
Time deposits with original maturity of less than three months when acquired	25	**6,291,029**	2,278,043
Cash and cash equivalents as stated in the statement of cash flows		**10,631,210**	6,235,029

Notes to Financial Statements

Year ended 31 December 2019

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September 2000. Upon approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the Main Board on 8 December 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Champion First Investments Limited	British Virgin Islands/ Hong Kong	US$2	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK$100 Ordinary	–	51	Research and development of pharmaceutical products
Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd. ("CT Tianqing")	PRC*	RMB890,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Jiangsu Runji Investment Co., Ltd.	PRC**	RMB10,000,000	–	60	Investment holding
Magnificent Technology Limited	British Virgin Islands/ Hong Kong	US$500,000	–	60	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT")	PRC*	RMB239,607,526	–	55.6	Development, manufacture and sale of pharmaceutical products
Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong")	PRC**	RMB103,528,805	–	60	Development, manufacture and sale of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lianyungang Chia Tai Tianqing Medicines Co., Ltd. ("LYG Tianqing")	PRC**	RMB50,000,000	–	60	Distribution of pharmaceutical products
Evon Industries Limited	Hong Kong	HK$2 Ordinary	100	–	Property holding
Fine Enterprise Investment Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Sino Biopharmaceutical (Tianjin) Co., Ltd.	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang")	PRC*	RMB168,193,296	–	55.588	Development, manufacture and sale of pharmaceutical products
Jiangsu Chia Tai Qingjiang Medicines Co., Ltd. ("Jiangsu Qingjiang Medicines")	PRC**	RMB5,000,000	–	55.588	Distribution of pharmaceutical products
Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai")	PRC*	US$9,363,500	–	60.898	Development, manufacture and sale of pharmaceutical products
Jiangsu Chia Tai Fenghai Medicines Co., Ltd. ("Jiangsu Fenghai Medicines")	PRC**	RMB20,000,000	–	60.898	Distribution of pharmaceutical products
Nanjing Chia Tai Fenghai Medicines Technology Co., Ltd.	PRC**	RMB500,000	–	60.898	Distribution of pharmaceutical products
Chia Tai Wing Fuk Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Qingdao) Co., Ltd. ("Qingdao Chai Tai")	PRC*	US$7,560,000	–	93	Development, manufacture and sale of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Qingdao Hang Seng Tang Pharmacy Co., Ltd.	PRC**	RMB1,250,000	–	93	Retail of pharmaceutical products
Qingdao Chia Tai Kangheng Medicines Co., Ltd.	PRC**	RMB5,000,000	–	93	Sale of pharmaceutical products
Talent Forward Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Sino Biopharmaceutical (Beijing) Limited ("SBBJ")	Hong Kong	HK$100 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited ("CTP(LYG)")	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Lucky Symbol Holdings Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Ace Elite Investments Limited	Hong Kong	HK$10 Ordinary	–	100	Investment holding
Shanghai Tongyong Pharmaceutical Co., Ltd. ("Shanghai Tongyong")	PRC*	RMB69,330,000	–	81.786	Manufacture and sale of pharmaceutical products
Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. ("CTP Investment")	PRC***	US$118,500,000	100	–	Investment holding
Chia Tai Healthcare (Holding) Limited	Hong Kong	HK$100 Ordinary	100	–	Investment holding
Chia Tai Shaoyang Orthopaedic Hospital ("Shaoyang Hospital")	PRC*	RMB129,928,711	–	44.2	Orthopaedic outpatient and surgical procedures
Lianyungang Tianrun Pharmacy Ltd.	PRC**	RMB100,000	–	60	Retail of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Tongzheng Import-Export Co., Ltd.	PRC**	RMB1,200,000	–	81.786	Distribution of pharmaceutical products
Suzhou Tianqing Xingwei Medicines Co., Ltd. ("Suzhou Xingwei")	PRC**	RMB30,000,000	–	33	Distribution of pharmaceutical products
Nanjing Shunxin Pharmaceutical Co., Ltd.	PRC**	RMB500,000,000	–	60	Manufacture and sale of pharmaceutical products
Tianjin Chia Tai Zhenwutang Food Co., Ltd. ("Tianjin Zhenwutang")	PRC*	RMB28,205,888	–	66.99	Manufacture and sale of health food
Zhejiang Tianqing Zhongwei Medicines Co., Ltd. ("Zhejiang Zhongwei")	PRC**	RMB30,000,000	–	33	Distribution of pharmaceutical products
Chia Tai Medicines Investment Ltd. ("CT Medicines Investment")	Hong Kong	HK$100 Ordinary	100	–	Investment holding
CP Boai Investment Ltd. ("Hong Kong Pacific")	Hong Kong	US$4,224,819	–	55	Investment holding
Beijing Fuxing Boai Vision Optical Centre Co., Ltd.	PRC**	RMB500,000	–	55	Optometry for optical glasses and sale of ophthalmic products
Zhengzhou Boai Ophthalmology Center Co., Ltd.	PRC*	RMB7,000,000	–	38.5	Ophthalmic examination and diagnosis
Jiangxi Boai Ophthalmology Center Co., Ltd.	PRC*	RMB1,000,000	–	38.5	Ophthalmic examination and diagnosis
Beijing Pacific Boai Medical Management Co., Ltd.	PRC*	US$2,520,000	–	55	Medical management consultancy services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhengzhou Puai Optical Sales Co., Ltd.	PRC**	RMB100,000	–	55	Optometry for optical glasses and sale of ophthalmic products
Linyi City People Hospital – Boai Ophthalmology Hospital	PRC**	RMB15,101,000	–	33	Ophthalmic prevention and diagnosis
Linyi Boai Vision Optical Centre Co., Ltd.	PRC**	–	–	33	Optometry of optical glasses and sale of ophthalmic products
Zhengzhou Boai Otorhinolaryngology Hospital Co., Ltd.	PRC**	RMB3,000,000	–	55	Outpatient and surgical procedures
Zhengzhou Boai Vision Optical Co., Ltd.	PRC**	RMB100,000	–	55	Optometry of optical glasses and sale of glasses
Beijing Fuxing Boai Ophthalmology Centre	PRC*	RMB13,870,032	–	41.25	Ophthalmic diagnosis
Chia Tai Resources Limited ("CT Resources")	Hong Kong	HK$10 Ordinary	100	–	Investment holding
Jiangsu Chia Tai Health Technology Co., Ltd.	PRC**	RMB1,000,000	–	55.588	Manufacture and sale of pharmaceutical products
Qingdao Hang Seng Tang Pharmacy Co. Ltd. Clinic ("QDHST Clinic")	PRC**	RMB30,000	–	93	Hospital operation and sale of pharmaceutical products
Anhui Chia Tai Banlanhua Industry Co., Ltd. ("Anhui Banlanhua")	PRC**	RMB107,850,000	–	43.791	Distribution and retail of health food
Karolinska Development (Asia) Limited	Hong Kong	HK$1 Ordinary	–	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Golden Sword Ventures Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Suzhou Suhang Pharmacy Co., Ltd.	PRC**	RMB100,000	–	33	Retail of pharmaceutical products
Champ Profit (China) Limited	Hong Kong	HK$1 Ordinary	–	100	Investment holding
Heroic Wise Investments Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Lianyungang Tianqing Xinte Pharmacy Ltd.	PRC**	RMB100,000	–	60	Retail of pharmaceutical products
Hangzhou Zhengzhuo Health Management Co., Ltd.	PRC**	RMB2,400,000	–	38.91	Health information consultancy services
Nanjing Junxin Medicines Technology Co., Ltd.	PRC**	RMB500,000	–	100	Medical technology development
Chia Tai Tianqing Europe SL	Spain	EUR3,000	–	60	Health information consultancy services
Chia Tai Logistics Limited	Hong Kong	HK$10 Ordinary	100	–	Investment holding
Changshu Chia Tai Teda Logistics Development Co., Ltd.	PRC**	RMB302,000,000	–	75	Distribution of pharmaceutical products
Runan Pharmaceutical Co., Ltd.	PRC**	RMB500,000	–	55.588	Development, manufacture and sale of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
France Investment (China I) Group Limited ("France Investment BVI")	British Virgin Islands/ Hong Kong	US$100	45	55	Investment holding
Super Demand Investments Limited ("Super Demand")	British Virgin Islands/ Hong Kong	US$100	100	–	Investment holding
Hangzhou Hangyi Pharmacy Co., Ltd.	PRC**	RMB100,000	–	33	Retail of pharmaceutical products
Chia Tai Yeheng Biotech (Shanghai) Co., Ltd. ("Yeheng")	PRC*	RMB100,000,000	–	70	Medical technology development
Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide")	PRC*	RMB500,000,000	–	57.6	Development, manufacture and sale of pharmaceutical products
Tide Meilun Technology Development Co, Ltd.	PRC**	RMB20,000,000	–	57.6	Medical technology development
Beijing Tide Sunshine Investment Co., Ltd.	PRC**	RMB1,000,000	–	57.6	Investment holding
Hebei Dingtai Pharmaceutical Co., Ltd.	PRC**	RMB50,000,000	–	57.6	Development, manufacture and sale of pharmaceutical products
Beijing Kaditai Medical Co., Ltd.	PRC**	RMB10,000,000	–	57.6	Medical technology development
Beijing Limaisi Biotechnology Co., Ltd.	PRC**	RMB10,000,000	–	57.6	Medical technology development
Beijing Lipusen Biotechnology Co., Ltd.	PRC**	RMB10,000,000	–	57.6	Medical technology development

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Keruntai Biotechnology Co., Ltd.	PRC**	RMB10,000,000	–	57.6	Research and development of pharmaceutical products
Zhengtai Logistics (Tianjin) Co., Ltd.	PRC**	RMB10,000,000	–	75	Distribution of pharmaceutical products
Pacific Fraternity (Beijing) Optometric Optical Accessories Co., Ltd.	PRC**	RMB1,000,000	–	55	Hospital and sale of pharmaceutical products
Pacific Fraternity (Beijing) International Medical Clinic Co., Ltd.	PRC**	RMB10,000,000	–	44	Comprehensive outpatient clinic
Nanchang Zhenmu Trading Co., Ltd. [1]	PRC**	RMB300,000	–	55	Trading of optical glasses
Nanjing Chia Tai Weikang Biopharmaceutical Co., Ltd.	PRC**	RMB20,000,000	–	55.6	Sales and medical consultation
Jiangsu Purun Bio-Medical Co., Ltd. [3]	PRC**	RMB20,000,000	–	55.6	R&D and production of active pharmaceutical ingredient
Nanjing Chuangte Medical Technology Co., Ltd. [4]	PRC**	RMB128,954,381	–	45.558	R&D and medical consultation
Hengzhi Bio-tech (Nanjing) Co., Ltd. [5]	PRC**	RMB20,000,000	–	70	Bio-tech transfer and consultation
Chia Tai Ching Tak Co., Ltd. [6]	Hong Kong	HK$100 Ordinary	100	–	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chia Tai Yushanfang Health Technology (Hangzhou) Co., Ltd. [7]	PRC**	RMB1,000,000	–	100	Comprehensive health technology
China Eastern Development Limited [8]	Hong Kong	HK$10,000 Ordinary	100	–	Property holding

Notes:

1. Nanchang Zhenmu Trading Co., Ltd. was newly established during the year ended 31 December 2019. The Company holds its equity interests through Hong Kong Pacific.

2. Nanjing Chia Tai Weikang Biopharmaceutical Co., Ltd. was newly established during the year ended 31 December 2019. The Company holds its equity interests through NJCTT.

3. Jiangsu Purun Bio-Medical Co., Ltd. was newly established during the year ended 31 December 2019. The Company holds its equity interests through NJCTT.

4. Nanjing Chuangte Medical Technology Co., Ltd. was newly established during the year ended 31 December 2019. The Company holds its equity interests through Jiangsu Fenghai.

5. Hengzhi Bio-tech (Nanjing) Co., Ltd. was newly established during the year ended 31 December 2019. The Company holds its equity interests through Yeheng.

6. Chia Tai Ching Tak Co., Ltd. was newly established during the year ended 31 December 2019. The Company holds its equity interests directly.

7. Chia Tai Yushanfang Health Technology (Hangzhou) Co., Ltd. was newly established during the year ended 31 December 2019. The Company holds its equity interests through CTP Investment.

8. China Eastern Development Limited was newly acquired during the year ended 31 December 2019. The Company holds its equity interests directly.

* These subsidiaries were registered as foreign-owned enterprises under PRC law.
** These subsidiaries were registered as limited liability companies under PRC law.
*** This subsidiary was registered as a wholly-foreign owned enterprise under PRC law.

2.1 BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings classified as property, plant and equipment, equity investments designated at fair value through other comprehensive income/profit or loss, and financial assets at fair value through profit or loss which have been measured at fair value, as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets and leases with a lease term of 12 months or less ("short-term leases"). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at cost, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at cost applying HKAS 40.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	1,340,966
Decrease in prepaid land lease payments	(1,222,099)
Decrease in prepayments, other receivables and other assets	(37,116)
Increase in total assets	81,751
Liabilities	
Increase in lease liabilities	(81,751)
Increase in total liabilities	(81,751)

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

	Increase/ (decrease) RMB'000
Operating lease commitments as at 31 December 2018	70,295
Other adjustments	14,194
Weighted average incremental borrowing rate as at 1 January 2019	3.16%
Discounted operating lease commitments as at 1 January 2019	81,751
Add: Finance lease liabilities recognised as at 31 December 2018	–
Lease liabilities as at 1 January 2019	81,751

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's interests in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's interests in associates or joint ventures.

If an interests in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an interest in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in the prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(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); and

(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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed on buildings frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of buildings are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4%-5%
Leasehold improvements	5%-20%
Plant and machinery	5%-9%
Motor vehicles	9%-18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at historical cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 20 years.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of profit or loss during the financial period in which they are incurred.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. If an item of property, plant and equipment becomes an investment property because its use has changed, the carrying amount of this item at the date of transfer is recognised as the cost of an investment property for accounting purposes. Property being constructed or developed for future use as an investment property is classified as an investment property.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks

Trademarks with finite useful lives are measured initially at cost and are amortised on the straight-line basis over the respective estimated useful lives of 10 to 30 years. Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of trademarks are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Customer relationship

Customer relationship with finite useful lives is measured initially at cost and is amortised on the straight-line basis over the respective estimated useful lives of 10 years.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40 to 50 years
Properties	1 to 8 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases 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 leases of low-value assets to leases of motor vehicles that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss and other comprehensive income.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (equity instruments) (continued)

Gains and losses on these financial assets are never recycled to the statement of profit or loss and other comprehensive income. Dividends are recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two 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 each reporting date, 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.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and other receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and other receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes

The Company and the Group's subsidiaries which operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute 20% to 23% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Company is HK dollars, while the functional currency of the entities in Mainland China is RMB. The directors of the Company believe the consolidated financial statements of the Group presented in RMB will provide shareholders with a more accurate reflection of the Group's underlying financial performance and position because the Group's revenues, profits and cash flows are primarily generated in RMB and are expected to remain principally denominated in RMB in the future.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rate prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rate for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries. The Group recognised deferred tax assets to the extent that it is probable that the subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets at 31 December 2019 was approximately RMB580,944,000 (2018: approximately RMB470,559,000). More details are given in note 30.

Estimation uncertainty

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, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was approximately RMB13,896,976,000 (2018: approximately RMB13,896,976,000). More details are given in note 16.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the best estimate of the carrying amount of capitalised development costs was approximately RMB716,838,000 (2018: approximately RMB504,979,000). More details are given in note 17.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Assessment of useful lives of deferred development costs

In assessing the estimated useful lives of deferred development costs, the Group takes into account factors such as the expected life span of the underlying pharmaceutical products based on past experience or from a change in the market demand for the products. The estimation of the useful lives is based on the experience of management.

4. OPERATING SEGMENT INFORMATION

Management considers the business from a product/service perspective. The three reportable segments are as follows:

(a) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of modernised Chinese medicine products and western medicine products;

(b) the investment segment is engaged in long term investments; and

(c) the "others" segment comprises, principally, (i) the Group's research and development sector which provides services to third parties; and (ii) related healthcare and hospital business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax.

Segment assets exclude deferred tax assets and the interests in associates as these assets are managed on a group basis.

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019

	Modernised Chinese medicines and chemical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	23,672,033	–	561,997	24,234,030
Segment results	5,744,192	(276,204)	67,108	5,535,096
Reconciliation:				
Interest and unallocated gains				214,809
Share of profits and losses of associates				111,385
Unallocated expenses				(277,468)
Profit before tax				5,583,822
Income tax expense				(889,448)
Profit for the year				4,694,374
Assets and liabilities				
Segment assets	45,667,127	10,041,753	1,200,984	56,909,864
Reconciliation:				
Interests in associates				808,443
Other unallocated assets				580,944
Total assets				58,299,251
Segment liabilities	9,002,285	8,061,010	629,630	17,692,925
Reconciliation:				
Other unallocated liabilities				321,758
Total liabilities				18,014,683
Other segment information:				
Depreciation and amortisation	1,501,547	29,400	28,259	1,559,206
Capital expenditure	1,644,795	207,989	287,948	2,140,732
Other non-cash expenses	2,489	427	922	3,838

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

	Modernised Chinese medicines and chemical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	20,335,710	–	552,874	20,888,584
Segment results	4,983,288	(201,145)	106,714	4,888,857
Reconciliation:				
Interest and unallocated gains				6,744,559
Share of profits and losses of associates				59,910
Unallocated expenses				(264,245)
Profit before tax				11,429,081
Income tax expense				(696,236)
Profit for the year				10,732,845
Assets and liabilities				
Segment assets	43,517,085	4,180,656	1,285,579	48,983,320
Reconciliation:				
Interests in associates				326,329
Other unallocated assets				470,559
Total assets				49,780,208
Segment liabilities	6,786,791	3,306,774	368,565	10,462,130
Reconciliation:				
Other unallocated liabilities				1,768,554
Total liabilities				12,230,684
Other segment information:				
Depreciation and amortisation	1,168,877	26,692	14,655	1,210,224
Capital expenditure	1,624,898	28,808	39,033	1,692,739
Other non-cash expenses	3,374	–	–	3,374

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) *Revenue from external customers*

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

(b) *Non-current assets*

	2019 RMB'000	2018 RMB'000
Hong Kong	**1,579,943**	992,045
Mainland China	**29,797,871**	29,009,483
Other countries/regions	**216,314**	26,716
	31,594,128	30,028,244

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

No information about major customers is presented as no single customer contributes to over 10% or more of the Group's revenue for the years ended 31 December 2019 and 2018.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sale of industrial products	**23,658,749**	20,308,246
Revenue from other sources	**575,281**	580,338
	24,234,030	20,888,584
Other income		
Bank interest income	**245,359**	145,868
Interest income on convertible bonds	**12,350**	16,855
Dividend income	**3,888**	12,156
Government grants*	**235,464**	213,457
Sale of scrap materials	**16,004**	26,745
Investment income	**295,159**	383,310
Gross rental income	**7,253**	5,119
Others	**41,679**	30,721
	857,156	834,231
Gains		
Gain on disposal of items of property, plant and equipment	**903**	–
Gain on deemed disposal of an associate	**–**	6,598,691
Fair value gains, net:		
Financial assets at fair value through profit or loss	**4,544**	10,239
	5,447	6,608,930
Total other income and gains	**862,603**	7,443,161

* Various government grants have been received for setting up research activities in Mainland China. Government grants received for which related expenditure has not yet been undertaken are included in deferred government grants in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**4,926,268**	4,196,932
Depreciation of property, plant and equipment	13	**541,471**	426,151
Depreciation of investment properties	14	**26,206**	22,860
Depreciation of right-of-use assets (2018: Recognition of prepaid land lease payments)	15	**93,178**	34,100
Amortisation of intangible assets*	17	**898,351**	727,113
Research and development costs		**2,398,712**	2,090,567
Revaluation (appreciation)/deficit of property, plant and equipment		**(5,031)**	1,421
Gain on disposal of items of property, plant and equipment	5	**(903)**	–
Loss on disposal of items of property, plant and equipment		**15,688**	3,374
Gain on deemed disposal of an associate		**–**	(6,598,691)
Share of profits and losses of associates		**(111,385)**	(59,910)
Bank interest income	5	**(245,359)**	(145,868)
Dividend income from equity investments at fair value through other comprehensive income	5	**(3,888)**	(12,156)
Investment income	5	**(295,159)**	(383,310)
Fair value (gains)/losses, net:	5		
Equity investments designated at fair value through profit or loss		**9,232**	53,671
Financial assets at fair value through profit or loss		**(4,544)**	(10,239)
Minimum lease payments under operating leases:		**–**	219,885
Lease payments not included in the measurement of lease liabilities		**111,335**	–
Auditor's remuneration		**4,840**	4,800
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**2,638,952**	1,950,010
Pension scheme contributions		**538,916**	387,870
		3,177,868	2,337,880
Accrual of impairment losses of trade receivables	23	**15,527**	8,908
Impairment of an investment in an associate**	18	**6,500**	41,448
Impairment of financial assets included in prepayments, other receivables and other assets		**38,003**	15,250
Foreign exchange differences, net		**59,983**	101,143

* The amortisation of intangible assets for the year was included in "Cost of sales" and "Other expenses", on the face of the consolidated statement of profit or loss.

** The impairment of an investment in an associate was included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	227,424	153,264
Interest on lease liabilities	2,526	–
	229,950	153,264

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	1,364	1,195
Other emoluments:		
Salaries, allowances and benefits in kind	46,682	36,706
Pension scheme contributions	197	192
Discretionary bonuses	68,724	51,948
	115,603	88,846
	116,967	90,041

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Mr. Lu Zhengfei	349	304
Mr. Li Dakui	349	304
Ms. Lu Hong	317	283
Mr. Zhang Lufu	349	304
	1,364	1,195

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and the chief executive

2019

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employee share option benefits RMB'000	Pension scheme benefits RMB'000	Total remuneration RMB'000
Executive directors:						
Ms. Tse, Theresa Y Y	–	11,461	13,224	–	16	24,701
Ms. Cheng Cheung Ling	–	10,315	17,632	–	16	27,963
Mr. Tse, Eric S Y	–	870	5,290	–	3	6,163
Mr. Tse Hsin	–	1,834	1,322	–	16	3,172
Mr. Wang Shanchun	–	5,524	–	–	53	5,577
Mr. Tian Zhoushan	–	2,340	–	–	93	2,433
Ms. Li Mingqin	–	585	400	–	–	985
	–	32,929	37,868	–	197	70,994
Chief executive:						
Mr. Tse Ping	–	13,753	30,856	–	–	44,609
	–	46,682	68,724	–	197	115,603

2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employee share option benefits RMB'000	Pension scheme benefits RMB'000	Total remuneration RMB'000
Executive directors:						
Ms. Tse, Theresa Y Y	–	7,673	10,117	–	15	17,805
Ms. Cheng Cheung Ling	–	8,768	12,647	–	15	21,430
Mr. Tse Hsin	–	1,644	927	–	15	2,586
Mr. Wang Shanchun	–	5,524	–	–	53	5,577
Mr. Tian Zhoushan	–	456	1,721	–	94	2,271
Ms. Li Mingqin	–	585	400	–	–	985
	–	24,650	25,812	–	192	50,654
Chief executive:						
Mr. Tse Ping	–	12,056	26,136	–	–	38,192
	–	36,706	51,948	–	192	88,846

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year represented five (2018: five) directors, details of whose remuneration are set out in note 8 above.

10. INCOME TAX

Taxes on profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 RMB'000	2018 RMB'000
Current – Hong Kong	–	–
Current – Mainland China	1,045,471	792,450
Deferred tax (note 30)	(156,023)	(96,214)
Total tax charge for the year	889,448	696,236

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

Hong Kong profits tax has been provided at a rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

In the year ended 31 December 2019, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd. ("CT Tianqing"), Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang"), Shanghai Tongyong Pharmaceutical Co., Ltd. ("Shanghai Tongyong"), Chia Tai Pharmaceutical (Qingdao) Co., Ltd. ("Qingdao Chai Tai") and Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong") were entitled to a corporate income tax rate of 15% because they were qualified as "High and New Technology Enterprises".

Other than the above-mentioned entities, the entities located in Mainland China were subject to corporate income tax at a rate of 25% in 2019.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2019

	Mainland China RMB'000	Hong Kong RMB'000	Total RMB'000
Profit before tax	**5,652,898**	**(69,076)**	**5,583,822**
Tax at the statutory tax rate	**1,413,224**	**(11,398)**	**1,401,826**
Less: Preferential tax rate reduction	**(580,416)**	**–**	**(580,416)**
Income not subject to tax	**(21,157)**	**(58,374)**	**(79,531)**
Expenses not deductible for tax	**176,621**	**69,772**	**246,393**
Additional tax deduction for research and development expenses	**(314,042)**	**–**	**(314,042)**
Tax losses not recognised	**57,890**	**–**	**57,890**
	732,120	**–**	**732,120**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries			**157,328**
Tax charge at the Group's effective rate			**889,448**

2018

	Mainland China RMB'000	Hong Kong RMB'000	Total RMB'000
Profit before tax	5,182,549	6,246,532	11,429,081
Tax at the statutory tax rate	1,295,637	1,030,678	2,326,315
Less: Preferential tax rate reduction	(534,280)	–	(534,280)
Income not subject to tax	(33)	(184,429)	(184,462)
Expenses not deductible for tax	80,240	62,911	143,151
Additional tax deduction for research and development expenses	(266,877)	–	(266,877)
Temporary difference not recognised	–	(923,736)	(923,736)
Tax losses not recognised	–	14,576	14,576
	574,687	–	574,687
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries			121,549
Tax charge at the Group's effective rate			696,236

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Interim – HK$0.060 (equivalent to RMB0.0529) (2018: HK$0.060 (equivalent to RMB0.0506)) per ordinary share	**665,871**	564,197
Proposed final – HK$0.02 (equivalent to RMB0.0176) (2018: HK$0.02 (equivalent to RMB0.0176)) per ordinary share	**221,957**	221,408
	887,828	785,605

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent for the year of approximately RMB2,706,794,000 (2018: approximately RMB9,046,347,000), and the weighted average number of ordinary shares of 12,540,704,268 (2018: 12,365,704,690) in issue during the year.

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2019

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019:							
Cost or valuation	2,087,907	8,145	2,409,385	207,605	805,213	1,658,020	7,176,275
Accumulated depreciation	-	(7,983)	(817,738)	(126,695)	(419,490)	-	(1,371,906)
Net carrying amount	2,087,907	162	1,591,647	80,910	385,723	1,658,020	5,804,369
At 1 January 2019, net of accumulated depreciation	2,087,907	162	1,591,647	80,910	385,723	1,658,020	5,804,369
Additions	-	343	210,281	20,026	190,142	1,246,806	1,667,598
Depreciation provided during the year	(97,731)	-	(267,668)	(28,583)	(147,489)	-	(541,471)
Surplus on revaluation	66,044	-	-	-	-	-	66,044
Disposals	-	(162)	(45,077)	(5,514)	(12,571)	(14,555)	(77,879)
Transfers from construction in progress	780,480	-	551,319	1,878	185,415	(1,519,092)	-
Transfer to expense	-	-	-	-	-	(5,956)	(5,956)
Exchange realignment	191	-	-	1,179	(347)	-	1,023
	2,836,891	343	2,040,502	69,896	600,873	1,365,223	6,913,728
At 31 December 2019:							
Cost or valuation	2,836,891	343	3,289,397	239,295	1,248,115	1,365,223	8,979,264
Accumulated depreciation	-	-	(1,248,895)	(169,399)	(647,242)	-	(2,065,536)
Net carrying amount	2,836,891	343	2,040,502	69,896	600,873	1,365,223	6,913,728

13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2018

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018:							
Cost or valuation	1,008,145	8,149	1,665,775	191,929	577,373	1,098,189	4,549,560
Accumulated depreciation	–	(7,969)	(660,248)	(93,290)	(304,800)	–	(1,066,307)
Net carrying amount	1,008,145	180	1,005,527	98,639	272,573	1,098,189	3,483,253
At 1 January 2018, net of accumulated depreciation	1,008,145	180	1,005,527	98,639	272,573	1,098,189	3,483,253
Additions	–	–	124,448	15,557	142,971	1,267,003	1,549,979
Depreciation provided during the year	(80,389)	–	(183,864)	(36,018)	(125,880)	–	(426,151)
Acquisition of a subsidiary	248,643	–	295,075	2,042	34,002	540,283	1,120,045
Surplus on revaluation	96,737	–	–	–	–	–	96,737
Disposals	(15,934)	(24)	(1,595)	(781)	(2,201)	–	(20,535)
Transfers	830,101	–	352,037	1,062	64,255	(1,247,455)	–
Exchange realignment	604	6	19	409	3	–	1,041
	2,087,907	162	1,591,647	80,910	385,723	1,658,020	5,804,369
At 31 December 2018:							
Cost or valuation	2,087,907	8,145	2,409,385	207,605	805,213	1,658,020	7,176,275
Accumulated depreciation	–	(7,983)	(817,738)	(126,695)	(419,490)	–	(1,371,906)
Net carrying amount	2,087,907	162	1,591,647	80,910	385,723	1,658,020	5,804,369

The Group's buildings as at 31 December 2019 were revalued as at that date by RHL Appraisal Ltd., independent professionally qualified external appraisal firm, at fair value of approximately RMB2,501,354,000 (2018: approximately RMB2,087,907,000) based on their existing use. The revaluation resulted in a surplus of approximately RMB66,044,000 (2018: approximately RMB96,737,000). The Group has credited approximately RMB31,713,000 (2018: credited approximately RMB50,849,000) to the revaluation reserve in the current year. The Group has debited approximately RMB5,031,000 (2018: credited approximately RMB1,421,000) to the statement of profit or loss in the current year.

Had the buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately RMB2,317,379,000 (2018: approximately RMB1,687,229,000).

At 31 December 2019, certain of the Group's buildings with a net carrying amount of approximately RMB198,900,000 (2018: approximately RMB33,300,000) were pledged to secure general banking facilities granted to the Group (note 28).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's buildings:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Properties held for own use	–	–	2,501,354	2,501,354

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Properties held for own use	–	–	2,087,907	2,087,907

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of buildings:

	Valuation technique	Significant unobservable inputs	Range or weighted average 2019	2018
Industrial property	Depreciated replacement cost method	(1) Replacement cost (2) Rate of newness	RMB901-RMB6,000; 33%-97%	RMB570-RMB5,150; 5%-97%
Commercial properties	Market comparison method	(1) Adjusted market price	RMB194-RMB45,057 per square metre	RMB665-RMB44,978 per square metre

14. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
At 1 January:		
Cost	**457,199**	433,362
Accumulated depreciation	**(89,535)**	(63,199)
Net carrying amount	**367,664**	370,163
At 1 January, net of accumulated depreciation	**367,664**	370,163
Acquisition of a subsidiary	**220,315**	–
Depreciation provided during the year	**(26,206)**	(22,860)
Effect of foreign exchange rate changes, net	**1,622**	20,361
At 31 December, net of accumulated depreciation	**563,395**	367,664
At 31 December:		
Cost	**680,996**	457,199
Accumulated depreciation	**(117,601)**	(89,535)
Net carrying amount	**563,395**	367,664

The Group's investment properties consist of three commercial properties in Hong Kong (2018: two), which are held to earn rentals. The properties are measured initially and subsequently at cost. Depreciation commences on the day the transaction of purchase is completed and is calculated on the straight-line basis over 20 years.

The Group's investment properties as at 31 December 2019 were revalued as at that date by RHL Appraisal Ltd. and BMI Appraisals Limited, independent professionally qualified external appraisal firms, at fair value of approximately RMB566,780,000 (2018: RMB512,000,000).

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 36 to the financial statements.

The properties with a net carrying amount of approximately HK$392,421,000 (approximately equivalent to RMB350,827,000) have been mortgaged for bank loans as mentioned in note 28.

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobeservable inputs (Level 3) RMB'000	Total RMB'000
Investment properties	–	–	566,780	566,780

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobeservable inputs (Level 3) RMB'000	Total RMB'000
Investment properties	–	–	512,000	512,000

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range or weighted average	
			2019	2018
Commercial properties	Market comparison method	Adjusted market price	RMB12,682-RMB53,896 per square feet	RMB13,326-RMB21,058 per square feet

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of prepaid land lease payments and properties. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 1 and 8 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	2018 RMB'000
Carrying amount at 1 January	806,195
Addition during the year	15,720
Acquisition of a subsidiary	471,400
Amortisation recognised during the year	(34,100)
Carrying amount at 31 December	1,259,215
Current portion included in prepayments, deposits and other receivables	(37,116)
Non-current portion	1,222,099

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Properties RMB'000	Total RMB'000
As at 1 January 2019	1,259,215	81,751	1,340,966
Additions	31,659	14,031	45,690
Depreciation charge	(60,025)	(33,153)	(93,178)
As at 31 December 2019	1,230,849	62,629	1,293,478

At 31 December 2019, Group's land with a net carrying amount of approximately RMB 280,272,000 (2018: Nil) were pledged to secure general banking facilities granted to the Group (note 28).

15. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	81,751
New leases	14,031
Accretion of interest recognised during the year	2,526
Payments	(33,959)
Carrying amount at 31 December	64,349
Analysed into:	
Current portion	23,079
Non-current portion	41,270

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	2,526
Depreciation charge of right-of-use assets	33,153
Expense relating to leases of short-term and low-value assets (included in administrative expenses)	111,335
Total amount recognised in profit or loss	147,014

16. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost at 1 January, net of accumulated impairment	**13,896,976**	88,926
Acquisition of a subsidiary	**–**	13,808,050
Cost and net carrying amount at 31 December	**13,896,976**	13,896,976
At 31 December:		
Cost	**13,896,976**	13,896,976
Accumulated impairment	**–**	–
Net carrying amount	**13,896,976**	13,896,976

Impairment testing of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill of the Group is related to thirteen different cash-generating units ("CGUs"), namely Beijing Tide, Hong Kong Pacific, Zhejiang Zhongwei, Suzhou Xingwei, Shanghai Tongyong, Shaoyang Hospital, and seven other subsidiaries of the Group acquired in previous years. As at 31 December 2019, approximately 99.36% of the carrying amount of goodwill arose from the acquisition of Beijing Tide.

The recoverable amounts of the goodwill attributable to the acquisition of equity interests in these CGUs have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a period ranging from five to nine years approved by senior management.

The recoverable amount of the goodwill attributable to the acquisition of equity interests in Beijing Tide has been determined based on value in use using cash flow projections based on financial budgets covering a nine-year period after considering several drug candidates of Beijing Tide to be launched in coming three to four years, macro economic policies and industry cycles.

The discount rates applied to the cash flow projections ranged from 12% to 16% (2018:13% to 15%). The growth rate used to extrapolate the cash flows beyond the period is 3% (2018:2.7% to 3%), which is based on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry.

16. GOODWILL (continued)

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Growth rate – The growth rate is based on industry growth forecasts.

Changes in selling prices and direct costs – These are based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs are consistent with external information sources. The directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of each CGU to exceed its recoverable amount.

17. INTANGIBLE ASSETS

31 December 2019

	Patents and licences RMB'000	Development costs RMB'000	Trademarks RMB'000	Customer relationship RMB'000	Total RMB'000
Cost					
At 1 January 2019	95,845	554,698	2,844,924	5,653,746	9,149,213
Addition	–	252,819	–	–	252,819
At 31 December 2019	95,845	807,517	2,844,924	5,653,746	9,402,032
Accumulated amortisation:					
At 1 January 2019	37,893	49,719	328,743	383,684	800,039
Provided during the year	10,926	40,960	193,629	652,836	898,351
At 31 December 2019	48,819	90,679	522,372	1,036,520	1,698,390
Net carrying amount	47,026	716,838	2,322,552	4,617,226	7,703,642

17. INTANGIBLE ASSETS (continued)

31 December 2018

	Patents and licences RMB'000	Development costs RMB'000	Trademarks RMB'000	Customer relationship RMB'000	Total RMB'000
Cost					
At 1 January 2018	43,291	198,194	50,690	–	292,175
Addition	41,990	84,816	234	–	127,040
Acquisition of a subsidiary	10,564	271,688	2,794,000	5,653,746	8,729,998
At 31 December 2018	95,845	554,698	2,844,924	5,653,746	9,149,213
Accumulated amortisation:					
At 1 January 2018	32,113	34,054	6,759	–	72,926
Provided during the year	5,780	15,665	321,984	383,684	727,113
At 31 December 2018	37,893	49,719	328,743	383,684	800,039
Net carrying amount	57,952	504,979	2,516,181	5,270,062	8,349,174

18. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	**780,529**	309,398
Goodwill on acquisition	**75,862**	58,379
	856,391	367,777
Provision for impairment	**(47,948)**	(41,448)
	808,443	326,329

18. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the material associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
CTTQ-Akeso (Shanghai) Biomed. Tech. Co., Ltd. ("CTTQ-Akeso")	Ordinary shares	PRC	50.00%	Medical R&D and relevant consultation
Tianjin Binhai Teda Logistics (Group) Co., Ltd. ("Tianjin Teda")	Ordinary shares	PRC	21.82%	Provision of comprehensive logistics services
LTT Bio-Pharm Co., Ltd ("LTT Bio-Pharm")	Ordinary shares	Japan	24.13%	Medical research and development

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for 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, result in particulars of excessive length.

(i) CTTQ-Akeso

	2019 RMB'000	2018 RMB'000
Share of net assets	172,234	–

CTTQ-Akeso was established in the PRC on 30 August 2019 with 50% of equity owned by the Group. The Group considers that it exerts significant influence on CTTQ-Akeso as it owns 42.86% of the voting rights. Akeso Inc. is responsible for the research and development while the Group has the exclusive right to sell the project drugs in China.

At the end of the relevant period, the registered capital of CTTQ-Akeso has not been fully paid up by controlling shareholder. Therefore, by the end of year, share capital was RMB172,362,500, contributed by CT Tianqing. During the year, CTTQ-Akeso incurred a loss of RMB257,479 from expense. After picking up the Group's share of loss, carrying amount of the investment was RMB172,234,100.

18. INVESTMENTS IN ASSOCIATES (continued)

(i) CTTQ-Akeso (continued)

The following table illustrates the summarised financial information of CTTQ-Akeso adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	2019 **RMB'000**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**50.00%**
Contributed share capital	**172,363**
Share proportion of loss amount	**(129)**
Carrying amount of the investment	**172,234**
Revenue	**–**
Profit for the year	**(257)**
Total comprehensive income for the year	**(257)**
Dividend received	**–**

(ii) Tianjin Teda

	2019 **RMB'000**	2018 RMB'000
Share of net assets	**202,254**	195,312

Tianjin Teda, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the provision of comprehensive logistics services and is accounted for using the equity method.

The following table illustrates the summarised financial information of Tianjin Teda adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	2019 **RMB'000**
Current assets	**1,984,921**
Non-current assets	**713,718**
Current liabilities	**(1,573,026)**
Non-current liabilities	**(106,166)**
Net assets	**1,019,447**
Net assets, excluding goodwill	**1,019,447**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**21.82%**
Other equity movement caused by changing accounting policy	**(20,189)**
Carrying amount of the investment	**202,254**
Revenue	**2,730,591**
Profit for the year	**31,818**
Total comprehensive income for the year	**31,818**
Dividend received	**–**

18. INVESTMENTS IN ASSOCIATES (continued)

(iii) LTT Bio-Pharm

	2019 RMB'000	2018 RMB'000
Share of net assets	**69,894**	69,338
Goodwill on acquisition	**5,529**	5,529
Share of net assets	**75,423**	74,867

As at 31 December 2019, the Company and its subsidiary, Beijing Tide, held 4.93% and 19.2% equity interests in LTT Bio-Pharm. LTT is engaged in the research and development of drug delivery system and drug repositioning, and has close business relationship with Beijing Tide.

The following table illustrates the summarised financial information of LTT Bio-Pharm adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	2019 RMB'000
Current assets	**176,491**
Non-current assets	**123,166**
Current liabilities	**(2,898)**
Non-current liabilities	**(1,119)**
Net assets	**295,640**
Net assets, excluding goodwill	**295,640**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**24.13%**
Group's share of net assets of the associate excluding goodwill	**71,338**
Goodwill on acquisition (less accumulate impairment)	**5,529**
Exchange realignment	**(1,444)**
Carrying amount of the investment	**75,423**
Revenue	**895**
Profit for the year	**2,305**
Total comprehensive income for the year	**2,305**
Dividend received	**–**

18. INVESTMENTS IN ASSOCIATES (continued)

(iv) Others

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' gain/(loss) for the year	104,999	(59,960)
Share of the associates' total comprehensive gain/(loss)	109,704	(53,336)
Aggregate carrying amount of the Group's interests in the associates	358,532	56,150

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	1,211,084	743,280

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

The amount represents equity investments in the unquoted equity shares of Chia Tai Qingchunbao Pharmaceutical Co., Ltd., Chia Tai Oversea Chinese Realty Development Co., Ltd. ("CTOCRD"), Wuxi Healthcare Ventures II, L.P, Pitango Growth Fund I L.P, KB CAP CH LLC, Talking Data Group Holding Limited, Suzhou Danqing Fund, Akeso Inc., and Mingyao (Jiaxing) Equity Investment Fund Partnership (Limited Partnership).

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Financial assets at fair value through profit or loss		
Current		
Convertible bonds of Karolinska Development AB	–	138,395
Wealth management products and trust funds	1,084,883	1,715,476
	1,084,883	1,853,871

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As at 31 December 2018, the Company and its subsidiary, CT Resources, have subscribed the convertible bonds of Karolinska Development AB (Nasdaq Stockholm: KDEV) ("Karolinska Development" or "KD") with an aggregate nominal value of SEK22,858,294 and SEK250,000,000 respectively. The bonds are convertible at the option of the bondholders into class B shares at any time during the conversion period at an initial conversion price of SEK22 per share at the Swedish Companies Registration Office until 30 June 2019. The bonds bear interest at 8% per annum, which is annually compounded paid on the maturity date of the convertible bonds unless conversion has taken place before that. The interest income is accrued in other receivables. The above investments at 31 December 2018 were designated by the Group as financial assets at fair value through profit or loss.

On 29 May 2019, KD announced that the Board of Directors of KD has decided on a directed issue of series B shares to the holders of the Company's 2015/2019 convertible loan (the "Directed Share Issue"). The terms and conditions of the Directed Share Issue to the holders of the Company's convertible loan were announced on 26 June 2019 and the proposed subscription price amounted to SEK 3.74 for each new share of series B. The Direct Share Issue was approved on the Annual General Meeting of KD that was held on 28 June 2019. The Company and CT Resources signed the unconditional subscription agreement with KD in early November to set-off the majority of the convertible bonds held by the Group and sold the remaining part of KD's convertible bonds to third party in December. Upon completion of the set off and the Direct Share Issue, the Company and CT Resources held 75,727,285 series B Shares of KD (including 4,853,141 shares that were held before the Direct Share Issue), which comprised 43.11% of KD's total registered capital. The convertible bonds of Karolinska Development AB previously included in financial assets at fair value through profit or loss have all been derecognised and the amount of the investment in an associate has been increased.

For wealth management products, the Group entered into the investment contracts with several PRC financial institutions with a floating return which will be paid together with the principal on the maturity date.

21. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 **RMB'000**	2018 RMB'000
Listed equity investments, at fair value	**491,357**	146,814

22. INVENTORIES

	2019 **RMB'000**	2018 RMB'000
Raw materials	**638,879**	424,633
Work in progress	**499,747**	362,235
Finished goods	**503,825**	388,436
Spare parts and consumables	**16,146**	33,856
	1,658,597	1,209,160

23. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**2,063,232**	2,145,744
Bills receivable	**676,473**	790,270
Impairment	**(27,496)**	(11,969)
	2,712,209	2,924,045

The fair value of bills receivables approximates to their carrying amount.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit periods range from 60 days to 180 days. The Group seeks to maintain a strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An ageing analysis of the Group's trade receivables as at end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2019 RMB'000	2018 RMB'000
Current to 90 days	**2,188,169**	2,404,647
91 days to 180 days	**440,407**	455,154
Over 180 days	**83,633**	64,244
	2,712,209	2,924,045

The movements in provision for the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**11,969**	3,061
Impairment losses recognised (note 6)	**15,527**	8,908
At end of year	**27,496**	11,969

Impairment under HKFRS 9 for the year ended 31 December 2019

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

23. TRADE AND BILLS RECEIVABLES (continued)

Impairment under HKFRS 9 for the year ended 31 December 2019 (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due				
	Current	Less than 30 days	Between 31 and 90 days	Between 91 and 180 days	Over 180 days	Total
Expected credit loss rate	0.00%	0.00%	17.94%	49.19%	80.04%	1.00%
Gross carrying amount (RMB'000)	2,319,171	331,331	64,586	12,298	12,319	2,739,705
Expected credit losses (RMB'000)	–	–	11,587	6,049	9,860	27,496

As at 31 December 2018

		Past due				
	Current	Less than 30 days	Between 31 and 90 days	Between 91 and 180 days	Over 180 days	Total
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	95.89%	0.41%
Gross carrying amount (RMB'000)	2,864,343	47,152	8,509	3,528	12,482	2,936,014
Expected credit losses (RMB'000)	–	–	–	–	11,969	11,969

Financial assets that are derecognised in their entirety

At 31 December 2019, the Group endorsed certain bills receivables accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of approximately RMB1,418,295,000 (2018: approximately RMB834,490,000). The Derecognised Bills had maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills shall have recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposures to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Current		
Prepayments	805,925	398,870
Other receivables	479,175	941,124
Investment in wealth management products	5,618,104	4,345,944
Prepaid expenses	47	5,139
Current portion of prepaid land lease payments	–	37,116
	6,903,251	5,728,193
Non-current		
Prepayments	414,466	61,633

The carrying amounts of other receivables, prepayments, investment in wealth management products and prepaid expenses approximate to their fair values due to their relatively short maturity terms.

For wealth management products, the Group entered into the investment contracts with several PRC financial institutions with a fixed return which will be paid together with the principal on the maturity date.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

25. CASH AND BANK BALANCES

	2019 RMB'000	2018 RMB'000
Cash and bank balances, unrestricted	4,340,181	3,956,986
Time deposits with original maturity of less than three months	6,291,029	2,278,043
Time deposits with original maturity of more than three months	1,280,000	441,013
Cash and bank balances	11,911,210	6,676,042

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to approximately RMB4,684,837,000 (2018: approximately RMB3,509,790,000) in Mainland China. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

26. TRADE AND BILLS PAYABLES

An ageing analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice receiving date, is as follows:

	2019	2018
	RMB'000	RMB'000
Current to 90 days	**1,219,488**	1,517,655
91 days to 180 days	**549,226**	219,309
Over 180 days	**40,731**	95,202
	1,809,445	1,832,166

Trade and bills payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and bills payables approximate to their fair values due to their relatively short maturity terms.

27. OTHER PAYABLES AND ACCRUALS

	2019	2018
	RMB'000	RMB'000
Accrued payroll and bonuses	**1,267,137**	949,736
Other payables	**1,658,682**	1,310,289
Accrued expenses	**2,159,280**	2,095,977
Staff welfare and bonus fund	**4,782**	38,556
Tax payable other than profits tax	**129,364**	168,153
Contract liabilities	**214,634**	121,671
	5,433,879	4,684,382

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of the other payables and accruals approximate to their fair values due to their relatively short maturity terms.

28. INTEREST-BEARING BANK BORROWINGS

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease Liabilities (notes 15(c), 35)						
Bank loans – unsecured	–	–	–	HIBOR+1.6	On demand	702,926
Bank loans – unsecured (g)	4.13-4.79	2020	10,631	4.13-4.79	2019	50,000
Bank loans – unsecured (e)	–	–	–	LIBOR+1.35	2019	2,056,058
Bank loans – secured (a)	4.35	2020	35,000	4.35	2019	35,000
Bills receivables discounted (b)	3.0-3.8	2020	598,992	3.0-3.8	2019	13,484
Current portion of long term						
bank loans – secured (c)	HIBOR+1.75	2020	11,398	HIBOR+1.75	2019	11,203
bank loans – secured (c)	HIBOR+1.25	2020	10,728	HIBOR+1.95	2019	36,904
			666,749			2,905,575
Non-current						
Lease Liabilities (notes 15(c), 35)						
Bank loans – unsecured (e)	LIBOR+2.06	2022	6,860,824	–	–	–
Bank loans – secured	–	–	–	6.5	2020	300,000
Bank loans – unsecured (d)	HIBOR+1.8	2022	692,830	–	–	–
Bank loans – unsecured (g)	4.90	2023-2026	50,000	4.9	2026	10,000
Bank loans – secured (c)	HIBOR+1.75	2030	110,548	HIBOR+1.75	2030	118,432
Bank loans – secured (c)	HIBOR+1.25	2022	70,600	HIBOR+1.95	2022	78,634
Bank loans – secured (f)	4.90	2029	100,000	–	–	–
			7,884,802			507,066
			8,551,551			3,412,641

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	666,749	2,905,575
In the second year	22,126	310,000
In the third to fifth years, inclusive	7,692,076	78,634
Beyond five years	170,600	118,432
	8,551,551	3,412,641

28. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

(a) At 31 December 2019, the Group's bank borrowings were secured by the Group's buildings with a carrying amount of approximately RMB198,900,000 (2018: approximately RMB33,300,000).

(b) As at 31 December 2019, bills receivables of an amount of approximately RMB598,992,000 were discounted at banks to obtain certain bank facilities of approximately RMB598,992,000.

(c) As at 31 December 2019, the Group's bank borrowings were secured by the Group's investment properties with a net carrying amount of HK$392,421,000 (approximately equivalent to RMB350,827,000) (2018:HK$418,438,000 (approximately equivalent to RMB367,664,000)). In 2019, the interest rate for a loan that due in 2022 has been lower from 1.75% to 1.25% after renegotiation with the Bank of Construction. The Bank and the Group made an agreement of the new interest rate at 1.25% for the bank loan, which will be due in 2022.

(d) On 20 February 2019, the Company, as the borrower, entered into a three-year unsecured refinancing facility agreement with Bank of Communications Co., Ltd. Hong Kong Branch for a loan facility of HK$800,000,000 (approximately equivalent to RMB685,389,000) with an interest rate of HIBOR plus 1.80% per annum. As at 31 December 2019, the remaining carrying amount of the borrowing is HK$775,000,000 (approximately equivalent to RMB692,830,000).

(e) On 9 April 2019, the Company, as the borrower, entered into a syndicated facility agreement with Bank of China Limited, Bank of Communications Co.,Ltd. Hong Kong Branch, The Hong Kong and Shanghai Banking Corporation Limited, Hang Seng Bank, Limited, as the Mandated Lead Arrangers and Bookrunners, for a three-year unsecured loan in principal sum of USD1,000,000,000 (approximately equivalent to RMB6,712,637,000) at an nominal interest of LIBOR plus 1.35% per annum ("Loan Facility"). The effective interest rate based on the Libor as at 31 December 2019 was 3.76%.

(f) As at 27 March 2019, Changshu Chia Tai Teda Logistics Development Co., Ltd. ("Changshu Teda"), the subsidiary of the Company, as the borrower, entered into a ten-year facility agreement with Industrial and Commercial Bank of China for a secured loan at an interest rate of 4.9% per annum for the purpose of construction payment. The loan facility of RMB 445,272,000 is secured by Changshu Teda's office building with a net value of RMB165,000,000 and the land use rights with a net value of RMB 280,272,000. As of 31 December 2019, the actual loan balance within the facility was RMB100,000,000 (2018:Nil).

(g) These bank loans were denominated in RMB.

29. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented government grants received for projects and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets or recognised as income on a systematic basis over the periods that the costs, which they are intended to compensate, are expensed.

30. DEFERRED TAX

Deferred tax liabilities

2019

	Development costs RMB'000	Fair value adjustment of financial investment at fair value through profit or loss RMB'000	Revaluation of properties RMB'000	Withholding tax RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Acquisition RMB'000	Total RMB'000
At 31 December 2018	42,154	20,643	95,559	203,028	101,176	1,248,244	1,710,804
Effect of adoption of HKFRS 16	–	–	–	–	–	–	–
At 1 January 2019 (restated)	42,154	20,643	95,559	203,028	101,176	1,248,244	1,710,804
Acquisition of subsidiaries							
Deferred tax charged to the statement of profit or loss (note 10)	28,833	17,367	6,708	157,615	9,655	–	220,178
Realised during the year	(6,144)	(20,643)	–	(92,792)	33,968	(128,945)	(214,556)
Deferred tax debited to equity	–	–	8,516	–	–	–	8,516
Gross deferred tax liabilities at 31 December 2019	64,843	17,367	110,783	267,851	144,799	1,119,299	1,724,942

30. DEFERRED TAX (continued)

Deferred tax assets

2019

	Leases RMB'000	Government grants RMB'000	Provision for receivables RMB'000	Accruals RMB'000	Building revaluation depreciation RMB'000	Elimination of profits on inventories RMB'000	Total RMB'000
At 31 December 2018	–	95,487	2,667	437,468	23,389	100,296	659,307
Effect of adoption of HKFRS 16	–	–	–	–	–	–	–
At 1 January 2019 (restated)	–	95,487	2,667	437,468	23,389	100,296	659,307
Acquisition of subsidiaries							
Deferred tax credited to the statement of profit or loss (note 10)	330	4,734	8,260	78,725	207	69,389	161,645
Gross deferred tax assets at 31 December 2019	330	100,221	10,927	516,193	23,596	169,685	820,952

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	580,944
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,484,934)
	(903,990)

30. DEFERRED TAX (continued)

Deferred tax liabilities

2018

	Development costs RMB'000	Fair value adjustment of financial investment at fair value through profit or loss RMB'000	Revaluation of properties RMB'000	Withholding tax RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Acquisition RMB'000	Total RMB'000
At 1 January 2018	26,296	–	80,203	162,733	59,084	17,871	346,187
Acquisition of subsidiaries	–	–	–	–	–	1,361,152	1,361,152
Deferred tax charged/(credited) to the statement of profit or loss (note 10)	15,858	20,643	–	121,549	49,636	(130,779)	76,907
Realised during the year	–	–	–	(81,254)	(7,544)	–	(88,798)
Deferred tax debited to equity	–	–	15,356	–	–	–	15,356
Gross deferred tax liabilities at 31 December 2018	42,154	20,643	95,559	203,028	101,176	1,248,244	1,710,804

Deferred tax assets

2018

	Government grants RMB'000	Provision for receivables RMB'000	Accruals RMB'000	Building revaluation depreciation RMB'000	Elimination of profits on inventories RMB'000	Total RMB'000
At 1 January 2018	36,306	1,075	383,207	23,737	100,406	544,731
Acquisition of subsidiaries	30,253	–	–	–	–	30,253
Deferred tax credited/(charged) to the statement of profit or loss (note 10)	28,928	1,592	54,261	(348)	(110)	84,323
Gross deferred tax assets at 31 December 2018	95,487	2,667	437,468	23,389	100,296	659,307

30. DEFERRED TAX (continued)

Deferred tax assets (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	470,559
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,522,056)
	(1,051,497)

At 31 December 2019, no deferred tax liabilities have been recognised for the profit arising from the deemed disposal of an associate that is subject to taxes of 10%. In the opinion of the directors, it is not probable that the Group would dispose of the shares of the associate in the foreseeable future. The aggregate amount of temporary differences associated with the deemed disposal in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB5,598,400,000 at 31 December 2019 (2018: RMB5,598,400,000).

The Group has tax losses arising in Hong Kong of approximately RMB182,401,000 (2018: approximately RMB228,921,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of accumulated tax losses of approximately RMB229,678,000 (2018: approximately RMB228,921,000) as they have occurred and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

31. SHARE CAPITAL

Shares

	2019 **RMB'000**	2018 RMB'000
Issued and fully paid:		
12,588,304,487 ordinary shares of HK0.025 each (2018: 12,606,800,487 of HK0.025 each)	**278,451**	278,846

31. SHARE CAPITAL (continued)

Shares (continued)

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
As at 1 January 2019	12,606,800,487	278,846
Shares cancelled	(18,496,000)	(395)
At 31 December 2019	12,588,304,487	278,451

32. SHARE OPTION SCHEME/SHARE AWARD SCHEME

Share option scheme

The Company operates a share option scheme (the "2013 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The 2013 Scheme became effective on 28 May 2013 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2013 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The maximum number of shares in respect of which options may be granted under the share option scheme when aggregated with the maximum number of shares in respect of which options over shares or other securities may be granted by the Group under any other scheme shall not exceed 10% of the issued share capital as at the date of adoption of the 2013 Scheme.

The total number of shares issued and to be issued upon exercise of options granted under the 2013 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding options, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2013 Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value (based on the closing price of the shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

32. SHARE OPTION SCHEME SHARE AWARD SCHEME (continued)

Share option scheme (continued)

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2013 Scheme at any time during a period to be determined on the date of offer of grant of a share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of grant of options to a grantee, there is no minimum period required under the 2013 Scheme for the holding of a share option before it can be exercised.

The exercise price of the shares under the 2013 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the shares on the date of the offer of the grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2013 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued share of HK$0.10 into four shares of HK$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2013 Scheme accordingly.

No share options have been granted under the 2013 Scheme since 28 May 2013.

Share award scheme

The Company operates a restricted share award scheme (the "2018 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations, pursuant to which existing shares will be purchased by a trustee (the "Trustee") from the market out of cash contributed by the Group and be held on trust for the eligible participants until such shares are vested.

The 2018 Scheme became effective on 5 January 2018 and remains in force for 10 years from that date.

The maximum number of shares which the Trustee may purchase with funds contributed by the Group shall not exceed 3% of the total issued share capital of the Group as at the date of adoption of the 2018 Scheme. In addition, the maximum number of restricted shares which may be granted to a eligible participant at any time or in aggregate may not exceed 0.5% of the issued capital of the Company as at the date of adoption of the 2018 Scheme.

Pursuant to the 2018 Scheme, eligible participants include the directors and employees of the Company and any of its subsidiaries. Where any grant of the restricted shares is proposed to be made to a director (including the independent non-executive director), such grant must first be approved by all the independent non-executive directors and in each case excluding any independent non-executive director who is the proposed participant.

No shares have been granted under the 2018 Scheme since 5 January 2018.

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former group holding companies acquired pursuant to the group reorganisation as stated in the Company's prospectus dated 22 September 2000, and the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, the enterprise expansion fund and the staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds is at the discretion of the boards of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to the staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as an expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint venture and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the Mainland China joint ventures.

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019	2018
	RMB'000	RMB'000
Percentage of equity interests held by non-controlling interests:		
CT Tianqing	**40.0%**	40.0%
NJCTT	**44.4%**	44.4%
Beijing Tide	**42.4%**	42.4%
LYG Runzhong	**40.0%**	40.0%

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

	2019 RMB'000	2018 RMB'000
Profit for the year allocated to non-controlling interests:		
CT Tianqing	1,571,543	1,177,690
NJCTT	249,273	230,010
Beijing Tide	94,992	163,528
LYG Runzhong	946,704	819,458
Accumulated balances of non-controlling interests at the reporting date:		
CT Tianqing	2,871,734	2,057,625
NJCTT	700,705	502,712
Beijing Tide	4,063,382	4,376,702
LYG Runzhong	1,543,874	1,287,520

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2019	CT Tianqing RMB'000	NJCTT RMB'000	Beijing Tide RMB'000	LYG Runzhong RMB'000
Revenue	12,266,925	3,087,725	3,440,057	3,367,347
Total expenses	(8,338,068)	(2,526,300)	(3,216,020)	(1,000,586)
Profit for the year	3,928,857	561,425	224,037	2,366,761
Total comprehensive income for the year	3,938,102	577,291	227,900	2,369,186
Current assets	6,784,751	1,701,187	2,250,913	4,047,011
Non-current assets	3,406,356	1,008,669	9,049,731	941,802
Current liabilities	(2,862,997)	(1,165,925)	(465,276)	(1,093,394)
Non-current liabilities	(148,776)	(3,098)	(1,251,919)	(35,733)
Net cash flows from operating activities	1,986,730	186,884	745,813	1,768,712
Net cash flows from/(used in) investing activities	(635,132)	(316,018)	(175,347)	299,113
Net cash flows used in financing activities	(2,067,295)	(313,868)	(802,420)	–
Net increase/(decrease) in cash and cash equivalents	(715,697)	(443,002)	(231,954)	2,067,825

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2018	CT Tianqing RMB'000	NJCTT RMB'000	Beijing Tide RMB'000	LYG Runzhong RMB'000
Revenue	10,267,952	2,690,414	3,308,021	2,987,063
Total expenses	(7,323,728)	(2,172,374)	(2,924,592)	(938,418)
Profit for the year	2,944,224	518,040	385,680	2,048,645
Total comprehensive income for the year	2,975,584	525,695	393,064	2,054,355
Current assets	5,357,658	1,320,185	2,406,468	3,061,754
Non-current assets	2,485,792	910,468	9,774,905	726,807
Current liabilities	(2,498,185)	(1,095,454)	(576,700)	(509,445)
Non-current liabilities	(201,202)	(2,965)	(1,282,263)	(60,315)
Net cash flows from operating activities	1,351,536	600,432	950,978	1,571,207
Net cash flows from/(used in) investing activities	(291,256)	477,922	(198,991)	(156,423)
Net cash flows used in financing activities	(1,884,965)	(257,870)	(171,506)	(1,500,945)
Net increase/(decrease) in cash and cash equivalents	(824,685)	820,484	580,481	(86,161)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,293,478,000 and RMB64,349,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

During the year, the Group had non-cash additions to an investment in an associate of Karolinska Development AB amounting to RMB192,679,000 by way of setting off the convertible bonds with direct share issues. (2018: Nil).

36. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2019, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2019 RMB'000	2018 RMB'000
Within one year	6,946	5,466
In the second to fifth years, inclusive	–	5,853
	6,946	11,319

37. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
– Land, plant and machinery	650,748	225,209
– Capital investments	313,292	–
	964,040	225,209

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2019 RMB'000	2018 RMB'000
Operating lease rentals payable to:		
– a company beneficially owned by one director (note (i))	8,892	8,687
Provision of consulting services to:		
– a company beneficially owned by connected persons (note (ii))	6,226	6,226

Notes:

(i) The lease rentals were based on the tenancy agreements entered into between the Group and the related party with reference to market prices.

(ii) The service fees were based on consulting agreements entered into between CTP Investment and CTOCRD with reference to market prices.

(b) Other transactions with related parties

In 2010, Validated Profits Limited ("Validated Profits"), which is wholly owned by Mr. Tse, Chia Tai Land Company Limited ("CT Land") and some other investors entered into an agreement (the "Consortium Agreement") to form an investment consortium for the purpose of tendering a bid to the relevant governmental authorities in Beijing for the acquisition of a site located at Beijing Chaoyang District CBD and, subject to the bid being successful, to form a project company for the purpose of carrying out the development. On 6 December 2010, CTP Investment, a wholly-owned subsidiary, entered into (a) an investment agreement with Validated Profits whereby Validated Profits agreed to transfer to CTP Investment all of its investment rights and obligations under the Consortium Agreement in connection with 7.5% of the total investment to be contributed by the Investment Consortium with nil consideration, and (b) an investment agreement with CT Land whereby CTP Investment agreed to transfer to CT Land all of its investment rights and obligations under the Consortium Agreement in connection with 2.5% of the total investment to be contributed by the Investment Consortium with nil consideration. Details are set out in the Company's press announcement dated 6 December 2010. As at 31 December 2019, the Group's capital contribution was approximately RMB238,942,000 in relation to this investment with the fair value of this investment amounting to RMB238,942,000 (note 19) (2018: approximately RMB238,942,000). During the year ended 31 December 2019, the project company CTOCRD was registered in the PRC with registered capital of RMB4,700,000,000. The Group, through CTP Investment, holds a 5% equity interest in CTOCRD.

(c) Loans due from associates

The Group has provided Karolinska Development AB, where the Group acts as the largest shareholder, with a bridge loan of SEK70,000,000 (amounting to RMB52,059,000) ending December 31, 2020 with an annual interest rate of 8.0%. Repayment by Karolinska Development AB can be made through cash payment and/or through set-off in connection with a new issue of B shares. In addition to the foresaid loans, the Group has provided loans to Jilin Chia Tai International Hospital and Jilin Chia Tai Bohua Hospital Co., Ltd., amounting to RMB90,875,000 with annual interest rates ranging from 4.35% to 9.6%.

38. RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel's remuneration

Remuneration of key management personnel of the Group, including amounts paid to the directors as disclosed in note 8 to the financial statements, is as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other short-term employee benefits	222,338	181,683
Pension scheme contributions	1,454	1,643
	223,792	183,326

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2019

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income			
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through profit or loss	491,357	–	–	–	–	491,357
Financial assets at fair value through profit or loss	1,084,883	–	–	–	–	1,084,883
Equity investments designated at fair value through other comprehensive income	–	–	–	1,211,084	–	1,211,084
Trade receivables	–	–	–	–	2,035,736	2,035,736
Bills receivables	–	–	676,473	–	–	676,473
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	7,054,839	7,054,839
Cash and bank balances	–	–	–	–	11,911,210	11,911,210
	1,576,240	–	676,473	1,211,084	21,001,785	24,465,582

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2018

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income			
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through profit or loss	146,814	–	–	–	–	146,814
Financial assets at fair value through profit or loss	1,715,476	138,395	–	–	–	1,853,871
Equity investments designated at fair value through other comprehensive income	–	–	–	743,280	–	743,280
Trade receivables	–	–	–	–	2,133,775	2,133,775
Bills receivables	–	–	790,270	–	–	790,270
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	4,345,944	4,345,944
Cash and bank balances	–	–	–	–	6,676,042	6,676,042
	1,862,290	138,395	790,270	743,280	13,155,761	16,689,996

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial liabilities

	Financial liabilities at amortised cost	
	2019 RMB'000	2018 RMB'000
Trade and bills payables	**1,809,445**	1,832,166
Financial liabilities included in other payables and accruals	**1,655,200**	1,310,309
Interest-bearing bank borrowings	**8,551,551**	3,412,641
	12,016,196	6,555,116

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through profit or loss	**491,357**	146,814	**491,357**	146,814
Financial assets at fair value through profit or loss	**1,084,883**	1,853,871	**1,084,883**	1,853,871
Equity investments designated at fair value through other comprehensive income	**1,211,084**	743,280	**1,211,084**	743,280
Trade receivables	**2,035,736**	2,133,775	**2,035,736**	2,133,775
Bills receivable	**676,473**	790,270	**676,473**	790,270
Financial assets included in prepayments, deposits and other receivables	**7,054,839**	4,345,944	**7,054,839**	4,345,944
Cash and bank balances	**11,911,210**	6,676,042	**11,911,210**	6,676,042
	24,465,582	16,689,996	**24,465,582**	16,689,996
Financial liabilities				
Trade and bills payables	**1,809,445**	1,832,166	**1,809,445**	1,832,166
Financial liabilities included in other payables and accruals	**1,655,200**	1,310,309	**1,655,200**	1,310,309
Interest-bearing bank borrowings	**8,551,551**	3,412,641	**8,551,551**	3,412,641
	12,016,196	6,555,116	**12,016,196**	6,555,116

The fair values of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and dividend due from an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of the listed equity investments are based on quoted market prices.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2019

	Fair value using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through profit or loss	491,357	–	–	491,357
Financial assets at fair value through profit or loss	–	–	1,084,883	1,084,883
Bills receivable	–	–	676,473	676,473
Equity investments at fair value through other comprehensive income	123,008	–	1,088,076	1,211,084

As at 31 December 2018 (Restated)

	Fair value using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through profit or loss	146,814	–	–	146,814
Financial assets at fair value through profit or loss	–	–	1,715,476	1,715,476
Bills receivable	–	–	790,270	790,270
Equity investments at fair value through other comprehensive income	–	–	743,280	743,280

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Assets measured at fair value(continued)

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all inputs that are significant to fair value measurement are observable, the instrument is included in level 2.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The investments in level 3 included wealth management products, bills receivables and unlisted equity investments.

The recurring fair value measurement for the Group's financial assets at fair value through profit or loss was performed using significant unobservable inputs (Level 3) as at 31 December 2019. Below is a summary of the valuation techniques used and the key input to the valuation:

	Valuation technique	Significant unobservable input
Financial assets at fair value through profit or loss	Discounted cash flow method	Expected return rate
Bills receivable held both to collect cash flows and to sell	Discounted cash flow method	Discount rate per annum
Unlisted equity investments, at fair value	Valuation multiples	Average P/B or P/E multiple of peers

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's bank borrowings with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in HK dollars and US dollars interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000	(Decrease)/ increase in equity RMB'000
2019			
HK$-denominated borrowings	**50**	**(4,480,520)**	**(4,480,520)**
US$-denominated borrowings	**50**	**(34,304)**	**(34,304)**
HK$-denominated borrowings	**(50)**	**4,480,520**	**4,480,520**
US$-denominated borrowings	**(50)**	**34,304**	**34,304**
2018			
HK$-denominated borrowings	50	(4,740)	(4,740)
US$-denominated borrowings	50	(10,322)	(10,322)
HK$-denominated borrowings	(50)	4,740	4,740
US$-denominated borrowings	(50)	10,322	10,322

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. In Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currencies in respect of the current account items (including payment of dividend and profit to a foreign joint venture partner).

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2019			
If Renminbi weakens against the Hong Kong dollar	**5**	**16,578**	**977,775**
If Renminbi strengthens against the Hong Kong dollar	**(5)**	**(16,578)**	**(977,775)**
2018			
If Renminbi weakens against the Hong Kong dollar	5	142,147	796,662
If Renminbi strengthens against the Hong Kong dollar	(5)	(142,147)	(796,662)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's liquidity remained strong as at the end of the reporting period. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group's exposure to liquidity risk is not significant.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2019

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	**1,809,445**	**–**	**–**	**–**	**1,809,445**
Other payables	**1,655,200**	**–**	**–**	**–**	**1,655,200**
Interest-bearing bank borrowings*	**598,992**	**76,044**	**253,266**	**8,291,224**	**9,219,526**
	4,063,637	**76,044**	**253,266**	**8,291,224**	**12,684,171**

2018 (Restated)

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	1,832,166	–	–	–	1,832,166
Other payables	1,310,289	–	–	–	1,310,289
Interest-bearing bank borrowings*	716,410	75,815	2,195,749	547,051	3,535,025
	3,858,865	75,815	2,195,749	547,051	6,677,480

* The calculation of expected interest to be paid is based on borrowing as at 31 December 2019 and 2018 and the interest rates as at 31 December 2019 and 2018.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as equity investments designated at fair value through profit or loss (note 21) as at 31 December 2019. The Group's listed investments are listed on the Hong Kong Stock Exchange and New York Stock Exchange, and the investments were valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 1% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2019			
Financial assets at fair value through profit or loss			
listed in Hong Kong	**476,891**	**4769/(4769)**	**4769/(4769)**
listed in US	**14,465**	**145/(145)**	**145/(145)**
2018			
Financial assets at fair value through profit or loss			
listed in Hong Kong	143,885	1,439/(1,439)	1,439/(1,439)
listed in US	2,929	29/(29)	29/(29)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group funds its operations principally via its capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

42. EVENTS AFTER THE REPORTING PERIOD

(1) The issue of EUR750,000,000 Zero Coupon Convertible Bonds due 2025

On 18 February 2020, the Company has successfully completed the issuance and listing of EUR750,000,000 zero coupon convertible bonds due 2025 by way of debt issues to professional investors only. The bonds may be converted into Conversion Shares pursuant to the Terms and Conditions. Assuming full conversion of the Bonds at the initial Conversion Price of HK$19.09 per Share and no further issue of Shares, the Bonds will be convertible into 338,380,041 Shares, representing approximately 2.69 percent of the issued share capital of the Company as at 17 February 2020 and approximately 2.62 percent of the issued share capital of the Company as at 17 February 2020 as enlarged by the issue of the Conversion Shares upon full conversion of the Bonds. The Conversion Shares to be issued upon conversion of the Bonds will rank pari passu and carry the same rights and privileges in all respects with the Shares then in issue on the relevant registration date.

The accounting impact of the issuance of the convertible bonds will be further disclosed in quarterly results announcement in 2020.

(2) The outbreak of the Novel Coronavirus ("COVID-19")

The spread of the novel coronavirus around the world has threatened the life and health of billions of people, and led to temporary suspension of businesses in the commercial and industrial sectors of many countries, stirring up volatility in financial markets. It is difficult to judge how far-reaching the impacts of this pandemic will have on the global economy. The Group has maintained ample liquidity. As of 31 December 2019, its cash and bank balances amounted to approximately RMB11,911 million, which is sufficient for withstanding any shocks that may result from any abrupt changes in the economic and industry environments. Facing the fierce outbreak, the Group promptly made the decision in late January 2020 to issue zero coupon convertible bonds with a principal amount of EURO750 million. This move consequently generated more funds for the Group. The Group will also adjust its measures and plans for epidemic prevention and control, project operations and business development accordingly, as and when appropriate. In addition, the Group will make timely disclosure on any important matters.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**3,834**	5,630
Investment properties	**350,815**	367,664
Investments in subsidiaries	**15,234,266**	14,839,412
Interests in associates	**66,090**	–
Equity investments designated at fair value through other comprehensive income	**505,137**	236,830
Long term prepayment	**139,460**	–
Total non-current assets	**16,299,602**	15,449,536
CURRENT ASSETS		
Due from subsidiaries	**1,354,222**	1,027,429
Prepayments, other receivables and other assets	**88,414**	419,708
Amounts due from related parties	**52,059**	–
Equity investments at fair value through profit or loss	**491,357**	146,814
Cash and bank balances	**7,502,069**	3,304,060
Financial assets at fair value through profit or loss	**–**	11,593
Total current assets	**9,488,121**	4,909,604
CURRENT LIABILITIES		
Trade and bills payables	**68,140**	–
Other payables and accruals	**145,988**	214,983
Interest-bearing bank borrowings	**22,126**	2,807,091
Total current liabilities	**236,254**	3,022,074
NET CURRENT ASSETS	**9,251,867**	1,887,530
TOTAL ASSETS LESS CURRENT LIABILITIES	**25,551,469**	17,337,066
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**7,734,802**	197,066
Net assets	**17,816,667**	17,140,000
EQUITY		
Share capital	**278,451**	278,846
Treasury shares	**(412,837)**	(457,288)
Reserves (note)	**17,951,053**	17,318,442
Total equity	**17,816,667**	17,140,000

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Issued capital RMB'000	Share premium account RMB'000	Treasury reserve RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 31 December 2017	170,033	1,128,455	–	65,051	(412,783)	–	2,966,711	–	3,917,467
Effect of adoption of HKFRS 9	–	–	–	–	–	–	–	–	–
At 1 January 2018 (restated)	170,033	1,128,455	–	65,051	(412,783)	–	2,966,711	–	3,917,467
Profit for the year	–	–	–	–	–	–	1,076,071	–	1,076,071
Fair value changes of financial assets	–	–	–	–	–	(57,803)	–	–	(57,803)
Exchange differences related to foreign operations	–	–	–	–	1,370,987	–	–	–	1,370,987
Total comprehensive income for the year	–	–	–	–	1,370,987	(57,803)	1,076,071	–	2,389,255
Repurchase of shares for cancellation	–	–	(192,803)	–	–	–	–	–	(192,803)
Repurchase of shares under share award scheme	–	–	(411,616)	*–	–	–	–	–	(411,616)
Cancellation of treasury shares	(681)	(146,450)	147,131	–	–	–	–	–	–
Final 2017 dividend declared	–	–	–	–	–	–	(146,131)	–	(146,131)
Interim 2018 dividend	–	–	–	–	–	–	(564,197)	–	(564,197)
Acquisition of a subsidiary	20,576	12,127,449	–	–	–	–	–	–	12,148,025
Issue of bonus shares	88,918	(88,918)	–	–	–	–	–	–	–
At 31 December 2018	278,846	13,020,536	(457,288)	65,051	958,204	(57,803)	3,332,454	–	17,140,000

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: (continued)

A summary of the Company's reserves is as follows: (continued)

	Issued capital RMB'000	Share premium account RMB'000	Treasury reserve RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2018	278,846	13,020,536	(457,288)	65,051	958,204	(57,803)	3,332,454	17,140,000
Effect of adoption of HKFRS 16	–	–	–	–	–	–	–	–
At 1 January 2019 (restated)	278,846	13,020,536	(457,288)	65,051	958,204	(57,803)	3,332,454	17,140,000
Profit for the year	–	–	–	–	–	–	1,415,564	1,415,564
Fair value changes of financial assets	–	–	–	–	(3,592)	1,366	–	(2,226)
Exchange differences related to foreign operations	–	–	–	–	183,208	–	–	183,208
Total comprehensive income for the year	–	–	–	–	179,616	1,366	1,415,564	1,596,546
Repurchase of shares for cancellation	–	–	–	–	–	–	–	–
Repurchase of shares under share award scheme	–	–	(32,051)	–	–	–	–	(32,051)
Cancellation of treasury shares	(395)	(76,107)	76,502	–	–	–	–	–
Final 2018 dividend declared	–	–	–	–	–	–	(221,957)	(221,957)
Interim 2019 dividend	–	–	–	–	–	–	(665,871)	(665,871)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–
Issue of bonus shares	–	–	–	–	–	–	–	–
At 31 December 2019	278,451	12,944,429	(412,837)	65,051	1,137,820	(56,437)	3,860,190	17,816,667

* The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.