草晶華破壁草本
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ANNUAL REPORT 2019

Zhongzhi Pharmaceutical Holdings Limited
中智藥業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3737

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Zhi Tian (Chairman)
Mr. Lai Ying Feng
Mr. Cao Xiao Jun
Mr. Cheng Jin Le

Non-executive Directors

Ms. Jiang Li Xia
Mr. Yang Ai Xing

Independent Non-executive Directors

Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

COMMITTEES OF THE BOARD

Audit Committee

Mr. Ng Kwun Wan (Chairman)
Mr. Wong Kam Wah
Mr. Zhou Dai Han

Remuneration Committee

Mr. Wong Kam Wah (Chairman)
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah (Chairman)
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

AUTHORIZED REPRESENTATIVES

Mr. Lai Ying Feng
Ms. Ho Wing Yan

COMPANY SECRETARY

Ms. Ho Wing Yan

REGISTERED ADDRESS

Clifton House
75 Fort House
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HEADQUARTER IN THE PRC

No. 3 Kangtai Road South
Torch Development Zone
Zhongshan
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 10B, 15/F
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

OFFICE IN SHENZHEN

Unit A-H on the 20th Floor
Dream City Office Tower
Mei Lin Lu, Futian Qu, Shenzhen
PRC

AUDITOR

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Corporate Information

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
China Construction Bank Corporation
Zhongshan Rural Commercial Bank Co., Ltd.

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F.,
Two Chinachem Exchange Square,
338 King's Road,
North Point, Hong Kong

STOCK NAME

ZHONGZHIPHARM

STOCK CODE

3737

COMPANY WEBSITE

www.zeus.cn

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Zhongzhi Pharmaceutical Holdings Limited (the "Company" and together with its subsidiaries, the "Group"), I am pleased to present to you the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "Reporting Period").

BUSINESS REVIEW

Riding on its clear strategic positioning, in 2019, Zhongzhi Pharmaceutical continued to leverage on the strong strategic development trend with its unique brand, marketing model and organisational transformation, which resulted in high synergy and enabled it to continue to stay at the top of the industry.

In 2019, Zhongzhi Pharmaceuticals successfully seized the opportunity of the Guangdong-Hong Kong-Macao Greater Bay Area and received strong support from the Guangdong Provincial Party Committee and Provincial Government. During his visit, Li Xi (member of the Political Bureau of the CPC Central Committee and Secretary of the Guangdong Provincial Committee) expressed his full affirmation of the Company's achievements in the field of Chinese medicine innovation. He further encouraged us to continue investing in our technologies and people, strengthen the competitiveness and development potential of our Group, seize the opportunities of the Greater Bay Area, and take Chinese medicine international.

In 2019, the Group achieved many breakthroughs around in the market:

- The series of Chinese cell-broken decoction pieces have entered the Guangdong Medical Insurance Catalogue, which has further expanded user accessibility to the product and increased the market capacity.

- The first "Healthy Guangdong" Herbal Health Festival was held to strengthen consumer awareness and recognition of the brand, which not only improved sales in our different channels, but also consolidated the market foundation.

- Established a unique entrepreneurial partner model. The marketing and traditional Chinese medicine health professional training team helped the entrepreneurial partners to reach customers and maintain them throughout the year, creating several market benchmarks, and cultivated a number of impactful entrepreneurial partners.

In 2019, the Group made several breakthroughs in scientific research technology:

- The National Development and Reform Commission approved the establishment of the National and Local Joint Engineering Research Center for Chinese Herbal Broken Pieces, becoming the first national-level scientific research platform with Chinese Herbal Broken Pieces as the research and industrialization development direction.

- Three self-developed Chinese medicine wall-breaking granule products have obtained the NPN (Natural Product Number) and license issued by the Health Canada and Natural Health Products Agency.

- The Group's laboratory obtained CNAS certification from China National Accreditation Service for Conformity Assessment, and its testing and inspection capabilities were recognized by ILAC.

- The Chinese medicine broken wall decoction pieces were evaluated through non-clinical safety evaluation and clinical experiment research, and the quality controllability and uniformity were improved comprehensively, which provided scientific evidence for clinical application.

- The Group was identified as a "National Intellectual Property Demonstration Enterprise" and its intellectual property management work has been recognized internationally.

Chairman's Statement

FUTURE PLAN AND OUTLOOK

In 2020, the epidemic of coronavirus pneumonia has brought huge difficulties to our society and economy, which had a certain impact on the development of the pharmaceutical industry. For pharmaceutical manufacturing, the shortage of materials, increasing costs of medicine and related packaging materials and logistics and transportation under the supply chain resulted in the increase in operating costs of many pharmaceutical enterprises. For chain pharmacies, the pressure on the operation of stores has increased due to the sharp decline in customer flow, the sluggish work resumption and the reduction in consumer purchasing power.

Chinese medicine has played a key role in the diagnosis and treatment of this pneumonia epidemic. At present, despite the epidemic is rapidly being contained and the patients being recovered quickly as a result of the stringent and efficient measures implemented by the government in the PRC, the epidemic has been spreading rapidly around the world, which gives Chinese medicine a unique opportunity to exert its unique advantages. In addition to the existing capability of Chinese medicine in diagnosis and treatment, the increased application of Chinese medicine by the international community will promote Chinese medicine to be further recognised by more countries and people. As an innovative Chinese medicine enterprise in Guangdong Province, Zhongzhi Pharmaceutical has its own research platform and extensive resources of various experts and talents, which shall play a stronger role in the society in the "post-epidemic" era. In the pharmaceutical segment, we are confident to outperform our peers. In the chain pharmacies segment, we also believe that with the enhancement of service brands and the driving force of the pharmaceutical business, pioneering and innovative, pragmatic and enterprising, and winning new battles will also become a reality.

During the outbreak of the epidemic, Zhongzhi Pharmaceutical made every effort to ensure the resumption of production. Not only the chain pharmacies remained operational and provided professional services to Zhongshan citizens, the production line also conducted advance planning to organise the full production of preventive and protective Chinese medicines in response to the epidemic. During the year, the Company promoted intensive humanitarian spirit and devotion to love as we actively organised the preparation of medical supplies including but not limited to medical masks, disinfectants, our own Milkvetch root modern decoction pieces (黃芪破壁飲片), Houttuynia cordatacell wall broken decoction pieces (魚腥草破壁飲片) during the severe epidemic period. In addition, we donated materials of RMB6.8 million to the Red Cross Society of Zhongshan in three batches. Among them, the first batch of medical masks, disinfectants, anti-flu Chinese medicine ShiqiWaigan Granules (石岐外感顆粒) and other materials, valued at RMB1.07 million, was donated to the city's designated treatment hospitals; the second batch of products including but not limited to Milkvetch root modern decoction pieces (黃芪破壁飲片), Houttuynia cordatacell wall broken decoction pieces (魚腥草破壁飲片), valued at RMB5 million, was donated to the medical staff of Wuhan Medical Institution; and the third batch of ShiqiWaigan Granules (石岐外感顆粒), valued at RMB0.73 million, was donated to police and police assistants in Zhongshan City. We believe that after the epidemic, the entire industry and the resurgence of social vitality will be recovered in the near future which will increase the recognition of Chinese medicine amongst consumers, and attract more consumers to focus on Chinese medicine-based health care, thereby driving the market that will lead to better financial results for the Group.

Digital Management

In 2019, the Group strengthened and improved the internal management processes which enhanced the overall management efficiency. With our effort in the second half of 2019, the business intelligence data system of the Group has been successfully launched, allowing management to have real time operating analytics at anytime and anywhere; improving the efficiency of decision makings. The Group will continue to invest in its information systems in 2020 to improve work efficiency and to increase employees' awareness to data. Meanwhile, the Group will continue to stride towards the digital era, driving data-based decision making.

Chairman's Statement

Research and Development

The Group continues to focus on the development of Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本（中藥破壁飲片）) as its core development direction. In 2019, Caojinghua Cell-broken Herb has obtained international certification which received the regulatory approvals for three types of products in Canada. In the future, we will continue our effort in research and development focusing on the breakthrough of new decoction pieces, Chinese medicines, health supplements and SC Food Product Permit labelled products. We will echo the demands of the leaders in our government and continue to globalise Chinese Medicine.

APPRECIATION

On behalf of the Company, I would like to express my sincere gratitude to our valued customers, employees, suppliers, shareholders and partners that have supported us through our journey to date. We expect the year ahead to be full of opportunities and challenges. As always, we will strive to create greater value for our shareholders and investors.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 25 March 2020

Management Discussion and Analysis

BUSINESS OVERVIEW

During the Reporting Period, the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong Province, the PRC. Revenue of the Group rose by approximately 17.5% to approximately RMB1,342.2 million.

Profit attributable to owners of the parent increased by approximately 34.8% to RMB114.7 million due to the strong growth momentum of the modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本), stricter controls over sales and management costs as well as from slight adjustments in sales modes.

FINANCIAL ANALYSIS

Revenue

The Group's operations can be divided into three segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; (ii) operation of chain pharmacies in Zhongshan; and (iii) operation of on-line pharmacies. Below is an analysis of revenue by segment.

	Revenue for the year ended 31 December			% of total revenue for the year ended 31 December		
	2019	2018	Change	**2019**	2018	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**753,400**	633,761	+18.9	**56.1**	55.5	+0.6
Operation of chain pharmacies	**535,380**	462,231	+15.8	**39.9**	40.5	-0.6
Operation of on-line pharmacies	**53,402**	46,158	+15.7	**4.0**	4.0	-0.0
	1,342,182	1,142,150	+17.5	**100.0**	100.0	

Pharmaceutical manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under the Group's brands in the PRC. The Group's brand include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 18.9% to RMB753.4 million for the year ended 31 December 2019 (2018: RMB633.8 million) and accounted for 56.1% of the total revenue during the year (2018: 55.5%). The increase in revenue is primarily attributable to the sales of the modern decoction piece (Caojinghua Cell-broken Herb) (草晶華破壁草本) driven by the Group's continuing efforts in marketing and expansion of new sales channels around the brand.

Management Discussion and Analysis

Operation of chain pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2019, the Group has 328 self-operated chain pharmacies in Zhongshan (2018: 316), of which 298 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 15.8% to approximately RMB535.4 million for the year ended 31 December 2019 (2018: RMB462.2 million) and accounted for 39.9% of the total revenue during the year (2018: 40.5%), which were a result of (i) increased incentives for member customers and increased membership stickiness; and (ii) new pharmacies opened throughout 2018 taking full year effect in 2019.

Operation of on-line pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 15.7% to RMB53.4 million for the year ended 31 December 2019 (2018: RMB46.2 million) and accounted for 4.0% of the total revenue during the Reporting Period (2018: 4.0%). The increase in sales is due to continuing efforts devoted into exploring new sales opportunities in new e-commerce platforms. As well, the increase is primarily attributable to the increase in the sales of the Group's Caojinghua branded products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB834.7 million, representing an increase of RMB126.4 million or 17.8% as compared with RMB708.3 million for the year ended 31 December 2018. The analysis of gross profit by segment is as below:

	Gross profit for the year ended 31 December			**Gross profit margin for the year ended 31 December**		
	2019	2018	Change	**2019**	2018	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**557,624**	458,474	+21.6	**74.0**	72.3	+1.7
Operation of chain pharmacies	**235,454**	210,864	+11.7	**44.0**	45.6	-1.6
Operation of on-line pharmacies	**41,611**	38,934	+6.9	**77.9**	84.3	-6.4
	834,689	708,272	+17.8	**62.2**	62.0	+0.2

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 21.6% to RMB557.6 million for the year ended 31 December 2019 (2018: RMB458.5 million). The gross profit margin increased to 74.0% for the year ended 31 December 2019 (2018: 72.3%), primarily resulted from the increase in the revenue of modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本) with higher gross profit margin.

Management Discussion and Analysis

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 11.7% to RMB235.5 million for the year ended 31 December 2019 (2018: RMB210.9 million). The gross profit margin of the chain pharmacies segment decreased to 44.0% for the year ended 31 December 2019 (2018: 45.6%). The decrease was due to greater discounts and promotions provided in the Group's loyalty programme to its members.

Operation of on-line pharmacies

The gross profit of on-line pharmacies segment increased by approximately 6.9% to RMB41.6 million for the year ended 31 December 2019 (2018: RMB38.9 million). The gross profit margin decreased to 77.9% for the year ended 31 December 2019 (2018: 84.3%), which is primarily attributable to the increase in sales promotion related to the Caojinghua products, resulting in overall lower margin.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from bank financial products and government grants. For the year ended 31 December 2019, other income and gains of the Group were approximately RMB23.2 million (2018: RMB24.2 million), representing an decrease of approximately RMB1.0 million as compared to last year, no significant changes were noted from prior year.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of the Group's chain pharmacies. For the year ended 31 December 2019, selling and distribution expenses amounted to approximately RMB569.7 million (2018: RMB492.8 million), representing an increase of approximately 15.6% as compared to last year. Selling and distribution expense ratio decreased to approximately 42.4% (2018: 43.1%) against revenue for the year ended 31 December 2019, which was mainly due to (i) the increase of marketing and promotion activities on the Company's Caojinghua Cell-broken Herb (草晶華破壁飲片) through various channels and platforms; and (ii) the increase in salaries for retaining and attracting outstanding business talents.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2019, administrative expenses amounted to approximately RMB78.1 million (2018: RMB77.8 million), representing an increase of approximately 0.3% as compared to last year. The Group had higher salaries expense throughout the year, which was offsetted by stricter cost controls including but not limited to travel expenses.

Management Discussion and Analysis

Other Expenses

Other expenses mainly represented research and development expenses, which mainly represent various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2019, research and development expenses amounted to approximately RMB47.4 million (2018: RMB52.5 million), representing a decrease of approximately 9.6% compared to that for the same period of last year. The decrease was due to the fact that some projects are in the research and development period, and most of the costs were invested in the previous period, resulting in a decrease in costs in the current period. However, the Group expects this cost to go up in the coming years as clinical trials begin.

Finance Costs

Finance costs represented interest on bank borrowings and interest on lease liabilities, which amounted to RMB4.0 million for the year ended 31 December 2019 (2018: RMB0.2 million). The increase is due to the adoption of IFRS 16.

Income Tax Expense

Income tax expense amounted to RMB41.2 million for the year ended 31 December 2019 (2018: RMB16.8 million). The increase was primarily due to (i) the increase in corporate income tax as a result of the increase in profit before tax from approximately RMB101.8 million for the year ended 31 December 2018 to approximately RMB155.9 million; and (ii) the recognition of deferred tax liability of approximately RMB9.5 million in relation to withholding tax at 10% on the distributable profits of the Group's subsidiaries in the PRC for the year ended 31 December 2019.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 34.8% to RMB114.7 million for the year ended 31 December 2019 (2018: RMB85.1 million). The Group's net profit margin amounted to 8.5% for the year ended 31 December 2019 (2018: 7.4%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB416.4 million as at 31 December 2019 (2018: RMB413.1 million). The Group's cash and bank balances increased from RMB332.7 million as at 31 December 2018 to RMB380.3 million (of which RMB377.3 million and HK$3.0 million) as at 31 December 2019. The current ratio of the Group decreased from approximately 2.5 as at 31 December 2018 to 2.0 as at 31 December 2019.

Borrowing and the Pledge of Assets

The Group had outstanding unsecured borrowings of HK$35 million as at 31 December 2019 (2018: nil).

As at 31 December 2019, the Group had available unutilised banking facilities of RMB30 million (2018: RMB30 million) and HK$5 million (2018: HK$20 million).

Gearing Ratio

The Group's gearing ratio as at 31 December 2019 is 4.1% (2018: nil).

Management Discussion and Analysis

Capital Structure

The shares of the Company (the "Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015. The capital of the Company comprises ordinary Shares and other reserves. As at 31 December 2019, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK$0.01 each.

Foreign Exchange Exposure and Exchange Rate Risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure for the year of 2019. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme. Other benefits include share options to be granted under the share option scheme and Shares to be granted under the share award plan.

As at 31 December 2019, the Group had 3,243 employees (2018: 3,398) with a total remuneration of RMB320.2 million during the Reporting Period (2018: RMB283.0 million) (including wages and salaries, pension scheme contributions, staff welfare expenses, equity-settled share award expenses and others). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

SIGNIFICANT INVESTMENTS

The Group had no significant investments held during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Reporting Period.

Management Discussion and Analysis

USE OF PROCEEDS

The Group's business objectives and planned use of proceeds as stated in the prospectus dated 30 June 2015 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the public offer and placing of the Shares (the "Global Offering") were approximately HK$452.9 million. On 4 April 2018, the Board resolved to change the use of the remaining unutilised proceeds from Global Offering (the "Reallocation"). For details of the Reallocation, please refer to the announcement of the Company dated 4 April 2018. The following table sets forth the status of use of net proceeds from Global Offering:

Business objectives as stated in the Prospectus	Use of net proceeds from Global Offering prior to the Reallocation	The Reallocation	Use of net proceeds subsequent to the Reallocation	Utilised up to 31 December 2019	Unutilised balance up to 31 December 2019
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Expansion of pharmaceutical chain in the Guangdong province	135,870	(72,360)	63,510	63,510	—
Expansion of distribution network	90,580	72,360	162,940	162,940	—
Providing funding for research and development activities	90,580	—	90,580	90,580	—
Expansion of production capacity	90,580	—	90,580	90,580	—
General working capital purposes	45,290	—	45,290	45,290	—
	452,900	—	452,900	452,900	—

As at 31 December 2019, all net proceeds raised from the Global Offering have been fully utilised as intended.

EVENT AFTER THE REPORTING PERIOD

There were no significant events after the Reporting Period up to the date of this report.

CAPITAL COMMITMENT

The capital commitment was mainly related to the purchasing of fixed assets for research and development activities and production plant of the Group's own-branded products. As at 31 December 2019, the Group's capital commitment amounted to RMB55.5 million (2018: RMB10.0 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business and the future plans as disclosed in the Prospectus, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance shareholder's value. The Group will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2019 (2018: nil).

Biographical Details of Directors and Senior Management

Biographies of Directors and senior management team are set out below:

EXECUTIVE DIRECTORS

Mr. Lai Zhi Tian (賴智填), aged 52, is the founder, controlling shareholder, an executive Director, Chairman of the Board and general manager of our Group. He is also a member of each of the remuneration committee and the nomination committee of the Company. He joined our Group on 27 September 1999 and is responsible for formulating the corporate strategies and planning the business development of our Group. He is the spouse and father of Ms. Jiang Li Xia, a non-executive Director and Mr. Lai Ying Feng, an executive Director respectively.

Mr. Lai has over 30 years of experience in the pharmaceutical industry and has extensive experience in pharmaceutical products development, manufacturing and distribution. From September 1981 to April 1994, he worked as a salesperson at the Puning Chang Mei Herbs Shop* (普寧市長美藥材站). From May 1994 to September 1998, he worked as a salesperson at Zhongshan Herbs Company* (中山市藥材公司). Mr. Lai was a manager of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") before its transformation from a collective enterprise to a limited liability company. In September 1999, he became a shareholder of our Group. Under the leadership of Mr. Lai, our Group's business expanded from the distribution of pharmaceutical products to the operation of chain pharmacies and the production of pharmaceutical products.

Mr. Lai is currently the vice chairman of China Pharmaceutical Materials Association* (中國醫藥物資協會) and the president of Guangdong Pharmacies Union* (廣東藥店聯盟). Mr. Lai is an adjunct associate professor and a mentor of the Master's programme at the Research Centre of Chinese Herbal Resources (Science and Engineering)* (中藥資源科學與工程研究中心) of Guangzhou University of Chinese Medicine* (廣州中醫藥大學).

Mr. Lai Ying Feng (賴穎豐), aged 28, was appointed as the executive Director on 14 May 2018 and is a member of each of the remuneration committee and the nomination committee of the Company. He joined the Group since April 2014 and has served as a director of sales in several sales divisions, helping to formulate sales strategies, and has served as the head of branding for the Company, leading the Group's brand and marketing strategies. Since July 2016, Mr. Lai has served as a director of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd.* (中山市中智藥業集團有限公司), a subsidiary of the Company, mainly responsible for organizing the formulation of business plan of the Company, investment and financing plan, and making decisions on major issues. He is the son of Mr. Lai Zhi Tian, an executive Director and Ms. Jiang Li Xia, a non-executive Director.

In July 2014, Mr. Lai obtained a bachelor's degree in economics from the Faculty of Arts and Social Sciences at Simon Fraser University in Canada and obtained a qualification certificate for the secretary of the board. Since April 2016, Mr. Lai has also been the vice president of the 1st Youth Entrepreneurs Association of Zhongshan Torch Hi-tech Industrial Development Zone* (第一屆中山火炬高技術產業開發區青年企業家協會).

Biographical Details of Directors and Senior Management

Mr. Cao Xiao Jun (曹曉俊), aged 52, was appointed as the executive Director on 30 January 2015 and is the chief financial officer and the deputy general manager of our Group. He joined our Group on 8 March 2010 and is responsible for supervising business development and overseeing sales and marketing activities of our Group. He obtained a Bachelor degree of Chemistry and Pharmacy Training from China Pharmaceutical University* (中國藥科大學) in July 1989. Mr. Cao was qualified as a pharmaceutical manufacturing engineer* (製藥工程師) and obtained a professional qualification in pharmacy* (藥學) in July 1999 and October 2002 respectively.

Mr. Cao has over 25 years of experience in the pharmaceutical industry. He served as the marketing manager in Guangdong Shiqi Pharmaceutical Company Limited* (廣東石岐製藥公司) from July 1989 to March 1997 and since then to June 2000, he became the deputy general manager of Shenzhen Wedge Pharmaceutical Chains Company Limited* (深圳市萬澤醫藥有限公司). From June 2000 to July 2009, he served as the deputy general manager of Shenzhen Naber Medicine Company Limited* (深圳市南北醫藥有限公司).

Mr. Cheng Jin Le (成金樂), aged 57, was appointed as the executive Director on 19 September 2016 and is the deputy general manager and chief engineer of the Group. He joined our Group in June 2003 and is responsible for overseeing the research and development of decoction pieces. Mr. Cheng is a licensed pharmacist* (執業中藥師) in the People's Republic of China and has over 35 years of experience in the pharmaceutical industry. Prior to joining our Group, he served as the chief pharmacist of Chinese medicine in the Hubei Macheng People's Hospital* (湖北麻城市人民醫院). Mr. Cheng is also an adjunct professor in the Guangzhou University of Chinese Medicine* (廣州中醫藥大學) since December 2007 and the Chairman of the Zhongshan Pharmaceutical Association* (中山市藥學會) since November 2013.

NON-EXECUTIVE DIRECTORS

Ms. Jiang Li Xia (江麗霞), aged 55, was appointed as the executive Director on 12 September 2014 and was re-designated as the non-executive Director on 19 September 2016. She is the controlling shareholder of the Company. Prior to joining our Group, Mrs. Lai has been a volunteer in the local community centre in a suburb of Vancouver, Canada from 2005 to 2008. She assisted in the operation of the centre where she gained her relevant experience in administration. Mrs. Lai joined our Group on 24 February 2009 and was responsible for supervising business administration of our Group. Her duties included overseeing human resources matters and co-ordinating among different departments to ensure sufficiency of office support for the operation of our Group. She is the spouse and mother of Mr. Lai Zhi Tian, an executive Director and Mr. Lai Ying Feng, an executive Director respectively.

Mr. Yang Ai Xing (陽愛星), aged 53, was appointed as a non-executive Director on 14 May 2018. He obtained a Bachelor of Science degree in Chemistry from the Chemistry Department of Xiangtan University in 1988 and an executive MBA degree from the Royal Roads University in Canada in 2002.

From September 1988 to September 1995, Mr. Yang served as the technician, the deputy head of the quality control department, and the center chief chemist director of Zhuzhou Pharmaceutical Factory in Hunan Province* (湖南省株洲製藥廠). From October 1995 to January 2016, he served as the sales director, marketing director, vice president of marketing and group chief executive of Jiaduobao Holdings Limited* (加多寶集團有限公司). Since February 2016, he has been the managing partner of Shanghai Novich Positioning Investment Management Co., Limited* (上海諾偉其定位投資管理有限公司).

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwun Wan (吳冠雲), aged 56, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of the audit committee and a member of each of the remuneration committee and the nomination committee of the Company. He obtained the Bachelor of Arts degree in Accounting and Finance from the Manchester Polytechnic in July 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in May 1990. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993.

Mr. Ng has over 20 years of experience in management. From November 1994 to October 1995 and from October 1995 to June 1998, Mr. Ng worked as a project manager for New World Development (China) Limited and New World Infrastructure Limited respectively. From July 1998 to August 2004, he worked for New World China Enterprises Projects Limited, a wholly owned subsidiary of New World Development Company Limited (Stock Code: 17), and his last position was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited (a subsidiary of South China (China) Limited (Stock Code: 413)). Mr. Ng has been an independent non-executive director of China Flavors and Fragrances Company Limited (Stock Code: 3318) since December 2009.

Mr. Wong Kam Wah (黃錦華), aged 51, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of each of the remuneration committee and the nomination committee and a member of the audit committee of the Company. He obtained his Bachelor's degree in Laws from the City Polytechnic of Hong Kong, the predecessor institution of the City University of Hong Kong, in December 1994. He obtained a postgraduate certificate in laws from the City University of Hong Kong in November 1995 and a Master degree in Laws from the King's College London, the University of London in November 1996. He further completed the Diploma in Insolvency held by the Hong Kong Institute of Certified Public Accountants in June 2010. Mr. Wong was admitted as a solicitor of Hong Kong in August 1999.

Mr. Wong has over 15 years of experience in legal practice. He is currently a partner of Messrs. Lau Edward, Wong & Lou.

Mr. Zhou Dai Han (周岱翰), aged 78, was appointed as an independent non-executive Director on 8 June 2015. He is a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. He obtained a Bachelor degree of Medical Treatment awarded by the Guangzhou College of Chinese Medicine* (廣州中醫學院) (the predecessor institution of the Guangzhou University of Chinese Medicine* (廣州中醫藥大學)) in August 1966. Mr. Zhou was accredited as an instructor of the Teaching and Inheritance of Experience of Famous and Veteran Doctors of Traditional Chinese Medicine* (全國老中醫藥專家學術經驗繼承指導老師) in November 2002. He was accredited as a Renowned Chinese Medical Practitioner of Guangdong Province* (廣東省名中醫) in October 2012.

Mr. Zhou has over 30 years of experience in the field of Chinese medicines. Since 1976, Mr. Zhou has been working at the Guangzhou College of Chinese Medicine as a lecturer, associate professor, associate dean of the tumor research center* (腫瘤研究室副主任), chief medical practitioner* (主任醫師), dean of the tumor department* (腫瘤科主任) and professor.

Mr. Zhou completed the Listed Companies Independent Directors Training Programme* (上市公司獨立董事培訓班) co-organised by the Securities Association of China and the Shenzhen Stock Exchange in January 2003.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Jiang Mei Fang (姜梅芳), aged 58, joined our Group on 1 June 2000 as a pharmacist (藥師) of Zhongzhi Chain Pharmacies Company Limited* (中山市中智大藥房連鎖有限公司) ("Zhongzhi Chain Pharmacies"). In March 1980, Ms. Jiang graduated from the School of Hygiene of Huangshi City of Hubei* (湖北省黃石市衛生學校). In 1995, Ms. Jiang became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部). In December 2011, she was qualified as a medical devices enterprise supervisor* (醫療器械企業負責人).

Prior to joining our Group, from March 1980 to May 1987, Ms. Jiang worked as a pharmacist (藥師) at Huangshi Hua Xin Hospital Company Limited* (黃石市華新醫院有限責任公司), formerly known as Hua Xin Cement Group Worker's Hospital* (華新水泥集團職工醫院). From June 1987 to June 2000, she worked as a supervisor at the pharmaceutical department of the same company. She has been the general manager of Zhongzhi Chain Pharmacies, an indirect wholly owned subsidiary of the Company, since June 2003. She is responsible for the overall management of Zhongzhi Chain Pharmacies.

Mr. Li Wu Yi (李武毅), aged 48, joined our Group on 12 July 2010 as the general manager of Zhongshan Zeus Pharmaceutical Manufacturing Limited. In January 2003, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部). In January 2010, Mr. Li obtained a Bachelor degree of Science in pharmacy awarded by the China Pharmaceutical University* (中國藥科大學).

Prior to joining our Group, from July 1995 to September 1997, Mr. Li worked as the laboratory supervisor at Guangxi Nanning Wan Shi Da Pharmaceutical Factory* (廣西南寧萬士達製藥廠). From April 1999 to April 2002, he worked as the qualitative analyst at Guangzhou Nan Xin Pharmaceutical Company Limited* (廣州南新製藥有限公司). From February 2002 to September 2006, he worked as the qualitative manager at Zhongzhi Honeson Pharmaceutical Co., Ltd* (中山市恒生藥業有限公司) ("Honeson Pharmaceutical"), an indirect wholly owned subsidiary of the Company. From October 2006 to June 2010, he worked as production manager at Dupont China Group Company Limited* (杜邦中國集團有限公司).

From July 2010 to March 2011, he worked as the general manager of Zhongshan Zeus Pharmaceutical Manufacturing Limited. From April 2011 to March 2012, he worked as an assistant general manager of Zhongzhi Pharmaceutical. From July 2012 to August 2013, he worked as the production supervisor of Dongguan Jin Mei Ji Pharmaceutical Company Limited* (東莞市金美濟藥業有限公司). He has been the general manager of Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. (中山市中智中藥飲片有限公司) ("Zhongzhi Herb Pieces") since 2 September 2013. He is responsible for the overall management of Zhongzhi Herb Pieces.

Mr. Chen Jiong (陳炯), aged 46, joined our Group on 31 August 2007 as the production manager of Honeson Pharmaceutical. In July 1997, Mr. Chen obtained a Bachelor degree of Science in pharmacy awarded by the Guangdong Pharmaceutical University* (廣東藥學院). In February 2001, Mr. Chen became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from July 1997 to November 2001, Mr. Chen served as the production worker of Guangzhou Chen Li Ji Pharmaceutical Factory* (廣州陳李濟藥廠) responsible for the operation of the production line and maintaining the GMP production standard.

Biographical Details of Directors and Senior Management

From January 2004 to December 2007, he worked as the manager of the production department of Honeson Pharmaceutical. From January 2008 to June 2008, he was the production supervisor of the same department. From July 2008 to December 2009, he worked as the assistant to the general manager of Honeson Pharmaceutical and was the general manager of Honeson Pharmaceutical from January 2010 to December 2015. Mr. Chen is now the general manager of Guangdong Caojinghua Cell-broken Herb Company Limited* (廣東草晶華破壁草本有限公司) ("Guangdong Caojinghua"), an indirect wholly owned subsidiary of the Company, and is responsible for the overall management of Guangdong Caojinghua.

Mr. Tang Lin (唐琳), aged 56, joined our Group on 31 August 2007 as the head of the technical development department of Honeson Pharmaceutical. In June 1985, Mr. Tang obtained a Bachelor degree of Science in Chinese Medicine awarded by the Hunan College of Chinese Medicine* (湖南中醫學院), the predecessor institution of the Hunan University of Chinese Medicine* (湖南中醫藥大學). In September 1996, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from August 1985 to May 1987, Mr. Tang worked as a pharmacist at Fuchuan Yaozu Autonomous Region People's Hospital* (富川瑤族自治縣人民醫院). From May 1987 to October 1994, he worked as an assistant factory manager of Guangxi Province Wuzhou Third Medicinal Factory* (廣西梧州地區第三製藥廠). From December 1997 to December 2000, he worked as a deputy head of the production department of Europharm Laboratories Co., Ltd.* (廣州歐化藥業有限公司). From March 2001 to October 2001, he worked as the head of the production department of Guangdong Jiangmen Ming Sheng Medicine Manufacturing Limited* (廣東江門名盛製藥有限公司). From November 2001 to December 2009, Mr. Tang worked as the head of technical development of Honeson Pharmaceutical. From January 2010 to December 2013, he worked as the general manager of the technical department of Zhongzhi Pharmaceutical. Since January 2010 and January 2014, he has been the chief engineer of Honeson Pharmaceutical and the head of the technical department of Zhongzhi Pharmaceutical respectively. Mr. Tang is also responsible for reviewing the quality control procedures performed by our quality control team.

Mr. He Gui Quan (何貴全), aged 40, joined Honeson Pharmaceutical in July 2003. He worked as a production supervisor from July 2003 to December 2007. From January 2008 to December 2009, he was the production manager of Honeson Pharmaceutical. From January 2010 to December 2015, he worked as the assistant to the general manager of Honeson Pharmaceutical and was promoted to general manager in January 2016, responsible for the overall management of Honeson Pharmaceutical.

Mr. He graduated from Guangdong Pharmaceutical University* (廣東藥學院) and is a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Reporting Period except the following deviation:

Code Provision A.2.1

Pursuant to CG Code provision A.2.1, the role(s) of a chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lai Zhi Tian ("Mr. Lai") is the Chairman and the general manager of the Group. In view of Mr. Lai is the founder of the Group and has been operating and managing the Group since 1999, the Board believes that it is in the best interest of the Group to have Mr. Lai taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstances.

As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2019.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provisions A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairman and chief executive officer and Mr. Lai Zhi Tian currently holds both of the Chairman and general manager positions, as explained in the paragraph headed "Corporate Governance Practices" above in the Corporate Governance Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

Corporate Governance Report

The Company annually assesses the independence of each independent non-executive Director during their terms of appointment. During the Reporting Period, the Company received from each of the independent non-executive Directors a written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent.

THE BOARD

The Board currently comprises four executive Directors, namely Mr. Lai Zhi Tian (Chairman), Mr. Lai Ying Feng, Mr. Cao Xiao Jun and Mr. Cheng Jin Le; two non-executive Directors, namely Ms. Jiang Li Xia and Mr. Yang Ai Xing; and three independent non-executive Directors, namely Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han. The number of independent non-executive Directors represents more than one third of the Board. The biographical details of and relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" on pages 13 to 17 of this annual report.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership as all the Executive Directors possess extensive experience in management and professional knowledge in business, while the three independent non-executive Directors possess professional knowledge and broad experience in finance, law and business. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders of the Company and the Company.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 90 to 94.

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

All Directors are appointed for a specific term. Each of the non-executive Directors of the Company is under a service contract with the Company for a period of three years commencing from 13 July 2018 (except for Ms. Jiang Li Xia whose contract commenced from the Listing day and shall continue thereafter and Mr. Yang Ai Xing whose contract commenced from 14 May 2018 and shall continue thereafter).

According to the articles of association of the Company (the "Articles"), all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting ("AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment, and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next AGM.

Corporate Governance Report

PROCEEDINGS OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The Board may meet together for the dispatch of business, adjourn and otherwise regulate its meeting and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. An AGM and an extraordinary general meeting called for the passing of a special resolution shall be called by at least 21 days' notice in writing, and a meeting of the Company other than an AGM or an extraordinary general meeting for the passing of a special resolution shall be called by at least 14 days' notice in writing. A meeting of the Board of any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company held during the year ended 31 December 2019:

	Attendance/Number of Meetings Held				
Name of Directors	**Regular Board Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Remuneration Committee Meeting**	**General Meeting**
Executive Directors					
Mr. Lai Zhi Tian	*5/5	—	1/1	1/1	2/2
Mr. Lai Ying Feng	5/5	—	—	—	2/2
Mr. Cao Xiao Jun	5/5	—	—	—	2/2
Mr. Cheng Jin Le	5/5	—	—	—	2/2
Non-Executive Directors					
Ms. Jiang Li Xia	5/5	—	—	—	2/2
Mr. Yang Ai Xing	5/5	—	—	—	2/2
Independent Non-Executive Directors					
Mr. Ng Kwun Wan	5/5	*2/2	1/1	1/1	2/2
Mr. Wong Kam Wah	5/5	2/2	*1/1	*1/1	2/2
Mr. Zhou Dai Han	5/5	2/2	1/1	1/1	2/2

* representing chairman of the board or the committees

Corporate Governance Report

The Board has established three committees, namely, the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange (www.hkex.com.hk) and the Company website (www.zeus.cn). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee was established on 8 June 2015 with terms of reference (amended on 31 December 2015) in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The Group's accounting principles and policies, financial statements and related materials for the year had been reviewed by the Audit Committee.

The external auditor was invited to attend two Audit Committee meetings held during the year to discuss with the Audit Committee members on the audit and financial reporting related matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor.

Remuneration Committee

The Remuneration Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management as well as other employee benefit arrangements. The Remuneration Committee comprises a total of five members, being two executive Directors, namely, Mr. Lai Zhi Tian and Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

During the year ended 31 December 2019, the Remuneration Committee has held one meeting. Full minutes of the Remuneration Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are circulated to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

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

Corporate Governance Report

For the year ended 31 December 2019, the annual salary of the senior management of the Company falls within the following bands.

Remuneration bands (HK$)	Number of senior management
Nil to 400,000	2
400,000 to 500,000	3

Nomination Committee

The Nomination Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee comprises a total of five members, being two executive Directors, namely, Mr. Lai Zhi Tian and Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

During the year ended 31 December 2019, the Nomination Committee has held one meeting. Full minutes of the Nomination Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Nomination Committee meetings are circulated to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the website of the Company and of the Stock Exchange.

Nomination Policy

The Board has adopted the nomination policy (the "Nomination Policy") on 29 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

Corporate Governance Report

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Delivery Policy

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company recognises the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will review the board diversity policy, as appropriate, to ensure the effectiveness of the board diversity policy and also discusses any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

Corporate Governance Report

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of the Group's operations with applicable laws and regulations.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code provision A.6.5, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2019, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2019, the Directors participated in the following continuous professional development:

Name of Directors	Training organized by professional organization[1]	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Lai Zhi Tian	✓	✓
Mr. Lai Ying Feng	✓	✓
Mr. Cao Xiao Jun	✓	✓
Mr. Cheng Jin Le	✓	✓
Non-executive Directors		
Ms. Jiang Li Xia	✓	✓
Mr. Yang Ai Ying	✓	✓
Independent Non-executive Directors		
Mr. Ng Kwun Wan	✓	✓
Mr. Wong Kam Wah	✓	✓
Mr. Zhou Dai Han	✓	✓

Notes:

1. Professional training namely "Big Data and Digital Transformation" was arranged by the Company to update the Directors' knowledge.

2. The Company received from each of the Directors the confirmations on taking continuous professional training.

Corporate Governance Report

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Ernst & Young as its external auditor for the year ended 31 December 2019. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

During the year ended 31 December 2019, the fee payable to Ernst & Young, is set out as follows:

Nature of Services	Fee paid/payable RMB'000
Audit services	2,370
Non-audit services	657

Non-audit services fees include (1) fees for providing internal control services and (2) fees related to ESG report.

INTERNAL CONTROL

Risk Management and Internal Control

The Board puts emphasis on risk management and has established and maintained suitable and effective risk management and internal control system. Such system aims to manage, rather than eliminate, risks of failure to achieve business objective, and provides reasonable, though not absolute, assurance against material misstatement or loss by the Group.

To attain the objective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards and best practices from excellent management companies, the management balances the actual situation and business features of the Company, while continuously allocates resources to optimize risk management and internal control system. The management assessed the effectiveness and appropriateness of the internal control system on the ground of the above to ensure the effective operation of the control system.

Risk Management Organization System

With respect to the organizational structure, the Group has established a set of complete organizational structure to manage risks that the Group is exposed to.

Risk Supervision Function

The Board's Responsibilities to Shareholders Regarding the Effectiveness of Comprehensive Risk Management

- Recognizing overall objectives of risk management, risk appetite and risk tolerance of the corporation, approving risk management strategies and substantial risk-mitigating plans as well as risk management measures;

- Understanding every material risk that the corporation will encounter and its current risk management status and making effective risk-control decisions;

- Approving the annual comprehensive risk management report;

- Overseeing the cultivation of risk management culture of the corporation.

Corporate Governance Report

Risk Management Function

Audit Committee is the top risk management body of the Company and is held accountable to the Board

- Considering the construction plan of comprehensive risk management system;
- Determining the plan on set-up of risk management organizational structure and their duties;
- Approving the regulation, system and the key procedures in risk management;
- Considering and assessing on the strategies of the Group in risk management;
- Approving the annual risk management work plan;
- Considering and assessing the significant solutions and measures in risk management;
- Reviewing and submitting annual comprehensive risk management report to the Board.

Daily Risk Management Function

Risk Management Project Team leads daily risk management works and reports to Audit Committee

- Responsible for the establishment and improvement of the risk management system and mechanism of the Company;
- Proposing annual risk management work plan and submitting the plan to Audit Committee for consideration;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to identify and assess risks on regular basis, and identify significant risks the Company is exposed to;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to discuss and formulate risk response strategies and solutions for the risks the Company is exposed to and to prepare comprehensive risk management report;
- Organizing or jointly organizing various functions and departments of the Group and the respective subsidiaries to improve the internal control system based on the risk response plan;
- Following up the implementation of the risk response plan performed by various functions and departments of the Group and the respective subsidiaries, and reviewing the operational effectiveness of the internal control system.

Corporate Governance Report

Risk Management Implementation Function

Respective functional departments of the Company commences risk management under the coordination of risk management project team

- Executing basic procedures for risk management and internal control;
- Identifying and assessing risks, and recognizing significant risks that the Company is exposed to under the guidance of risk management project team;
- Discussing and implementing risk control measures and solutions against risks the Company is exposed to under the guidance of the risk management project team;
- Enhancing the internal control system of the functions and departments in accordance with the risk response plan.

Internal Audit Function

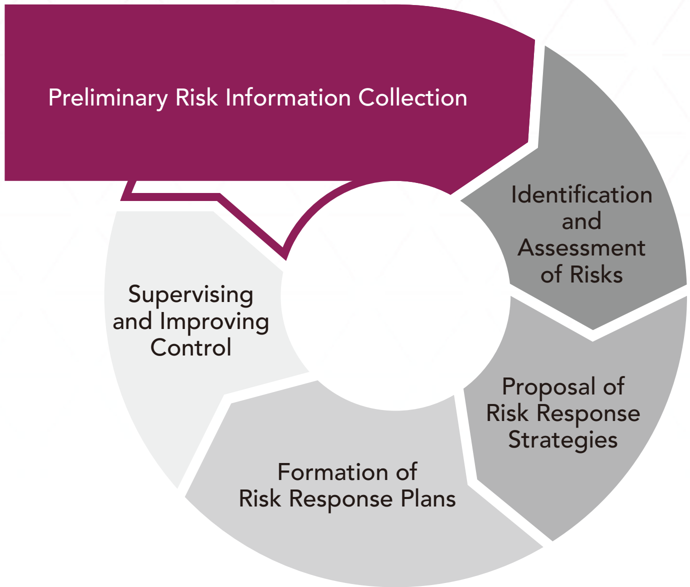
Internal Audit Department analyzes and makes independent assessment on the adequacy and effectiveness of the risk management and internal control system of the Group

- Responsible for establishing and amending the internal reviewing system and work mechanism of the Company;
- Formulating internal audit plan and determining internal audit focuses, audit methods and procedures, time of audit and staff arrangement/engagement arrangement of third party professional institutions based on the substantial risks and business fields the Company is exposed to, and submitting the Board and Audit Committee for consideration;
- Reviewing the effectiveness of risk management and the internal control system, including the annual comprehensive risk management report, risk management plan and daily risk management solutions; assessing the design and operational effectiveness of the internal control system;
- Auditing the assessment results of risk management and internal control system issued by the third party;
- Reporting the risk management and internal control works to Audit Committee and the Board.

Corporate Governance Report

Risk Management Procedures

The Group has established a set of complete risk management procedures to identify, assess and manage substantial risks, to review the effectiveness of risk management and the internal control system, and to resolve serious deficiencies on internal control. Specific procedures of risk management are as follows:



(a) Preliminary Risk Information Collection:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to extensively and continuously collect internal and external preliminary information related to risk management for the list of risk information.

(b) Identification and Assessment of Risks:

Risk assessment questionnaires were designed based on the list of risk information by the risk management project team. Various functions and departments of the Company and the Group and the respective subsidiaries are regularly organized to carry out risk analysis and assessment. Risks are sorted and significant risks are identified according to the assessment results.

For material issues, the risk management project team organizes and convenes special assessment meetings for the assessment of material issues and risk issues in order to provide support regarding decisions-making.

(c) Proposal of Risk Response Strategies:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to select management strategies for each of the risks.

(d) Formation of Risk Response Plans:

The risk management project team organizes various functions and departments of the Group and the respective subsidiaries to discuss and propose risk response plans and designs, amends or optimizes internal control files based on the risk response plans.

(e) Supervising and Improving the Implementation of Risk Management of Each Business Unit:

The risk management project team supervises and assesses the implementation of risk management and the effectiveness of internal control of each business unit; Keeping track of the development of material risk issues.

Internal audit department analyzes and makes independent assessment on whether risk management and the internal control system of the Group are sufficient and effective.

Identification, Assessment and Management of Risks

In 2019, the risk management project team, in accordance with the risk management procedures aforementioned, commenced risk identification and assessment from five dimensions, namely strategies, marketing, operation, compliance and finance. Senior management as well as middle-and-basic level staff of the Group were extensively organized to identify and assess the risks exposed to in the course of their work. In the light of the top ten significant risks assessed and identified, the risk management project team organized senior management of the Group to discuss and determine risk response strategies and specific risk response plans based on the level of risk tolerance. For other identified risks, the risk management project team assessed the risk response plans of business units and formed a comprehensive risk management report by proposing adjustments or recommendations for improvement.

The risk management project team kept track on the execution of response plans and measures of significant risks and reported to senior management of the Group.

Assessment on the Effectiveness of the Risk Management and the Internal Control System

In 2019, the Board continuously supervised and performed annual review on the effectiveness of the risk management and the internal control system of the Group and its subsidiaries through the Audit Committee. The review covered aspects of significant control, such as financial control, operational control, supervision on compliance and risk management. The directors are of the view that, the operation of the internal control system is effective and sufficient, and effectively controls various risks that might disturb the Company from achieving its objectives. The Board was not aware of any significant issues that might affect the shareholders and needed to be brought to their attention, and believed that the internal control of the Group has complied with every code provision in connection with internal control within the Corporate Governance Code, including the compliance of the requirements of laws and regulations.

Corporate Governance Report

The Board has, with reference to the assessment made by Audit Committee, reviewed in the board meeting on whether the resources in accounting, internal audit and financial reporting functions, staff's qualification and experience, and training courses provided to staff and the relevant budget were sufficient. In 2019, the Internal Audit Department, based on the aforementioned risk management procedures, entrusted third party professional institutions to conduct review and assessment on the effectiveness of design and operational compliance of the relevant internal control system in relation to risk management, control and governance practices, regarding the risk management system and the internal control system of significant business fields. Audit Committee under the Board reviewed the assessment results of risk management and internal control system of the Group for the year ended 31 December 2019 issued by third party professional institution and no significant concern that constituted impacts to the Company's shareholders was found.

Management of Inside Information

The Group has formulated a set of complete procedures for inside information management to supervise the inside information revealed during business development and standardized the practice of conveying relevant information to shareholders, media and analysts. Those management procedures state expressly that confidential or inside information is strictly prohibited to use without permission and set out the reply procedures in respect of the enquiry towards the Group's affairs made by external parties.

DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

COMPANY SECRETARY

Ms. Ho Wing Yan ("Ms. Ho") has been appointed as the company secretary of the Company since 5 May 2017 and is responsible for overseeing all the company secretarial matters of the Group. In the opinion of the Board, Ms. Ho possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. Mr. Lai Zhi Tian, the chairman of the Company, is the primary corporate contact person of the Company with Ms. Ho. During the year ended 31 December 2019, Ms. Ho confirmed that she has taken no less than 15 hours of relevant professional training. The Company will provide fund for Ms. Ho to take no less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Corporate Governance Report

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 64 of the Articles, extraordinary general meeting shall be convened on the requisition of one or more shareholders 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 having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 64 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office and Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

Corporate Governance Report

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 29 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTORS RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Constitutional Documents

The was no significant changes in the constitutional documents of the Company during the year ended 31 December 2019.

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

Overview

This report is the fourth environmental, social and governance (ESG) report published by Zhongzhi Pharmaceutical Holdings Limited. Following the principles of materiality, quantification, balance and consistency, we focus on the disclosure of relevant information on the economic, social and environmental performance of the Company for the period from 1 January 2019 to 31 December 2019 (some representation and data appropriately exceed the above years). This report is reported on an annual basis.

Basis of preparation

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Guidelines") of Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The contents of this report are determined in accordance with a set of systematic procedures, which include identifying and prioritizing key stakeholders, identifying and prioritizing key issues relating to ESG, determining reporting scope and boundary, collecting relevant materials and receipts, compiling data based on information, and reviewing information.

In this report, the Company illustrates how to identify and engage with our stakeholders, determining the materiality matrix and key issues. On this basis, the Company has made quantifiable disclosures on the key performance metrics, enabling effective a three-year comparison of data, while comprehensively and fairly reporting on its ESG performance.

Reporting scope and boundary

The disclosure scope and boundary in this report are consistent with the 2019 annual report of Zhongzhi Pharmaceutical Holdings Limited.

Explanation for abbreviations

In order to facilitate the presentation and reading, for the purpose of this report, each of "Zhongzhi Pharmaceutical", the "Group", the "Company" and "We" refers to "Zhongzhi Pharmaceutical Holdings Limited" in this report.

Source of data and reliability assurance

The data and information in this report are mainly from the relevant documents, reports and statistic results of the Company. Zhongzhi Pharmaceutical, in the name of the board of directors (the "Board"), undertakes that this report contains no false statements or misleading statements, and is responsible for the truthfulness, accuracy and completeness of its contents.

Confirmation and approval

This report is confirmed by the management and approved by the Board on 25 March 2020.

Environmental, Social and Governance Report

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE

2.1 Management Mechanism of Environmental, Social and Governance

The ESG management within the Group is coordinated by the ESG Working Committee, which is chaired by Mr. Lai Ying Feng, an executive director of the Group and deputy general manager of the Company, with members including Mr. Qiao Wei Lin, Chair of Operations, Mr. Xu Ji Yin, Deputy Chair of Operations, all department heads at our head office and employees capable of identifying and managing ESG risks. In strict compliance with the Environmental, Social and Governance Reporting Guide and related guidelines issued by the Stock Exchange of Hong Kong, the Committee should develop, implement and regularly review the effectiveness of the Group's ESG-related management systems and reports to the Board on, among others, material ESG issues, relevant risks identified and achievements in ESG.

Table 1 ESG Management Level and Delineation of Function (2019)

Working Level	Function Setup	Specific Duties and Responsibilities
Decision-making level	Board of Directors	1. Discuss major environmental, social and governance (ESG) matters and future development 2. Review ESG action plans and results 3. Review ESG strategy and approach 4. Review the effectiveness of ESG management
Communication level	ESG Working Committee	1. Identify ESG risks 2. Coordinate stakeholder communications and materiality analysis of ESG issues 3. Develop ESG action plans and target management 4. Formulate ESG strategy and approach 5. Coordinate day-to-day ESG management and disclosure 6. Regularly report to the Board on ESG management status
Execution level	Coordinators in departments at the head office and subsidiaries	1. Implement ESG information and policy management 2. Report to the ESG Working Committee on relevant outcomes

2.2 Communication with Stakeholders

Zhongzhi Pharmaceutical maintains close communications with its stakeholders to understand their requirements for and expectations of the Group, which are adequately addressed through different ways of communication, including this report. In terms of the forms of communication, we communicate with all stakeholders in all respects by ways of, among others, face-to-face interview, telephone interview, questionnaire survey and on-site visit.

Table 2 2019 Stakeholders of Zhongzhi Pharmaceutical and Communication Issues

Stakeholders	Appeals and Expectations for the Company	Communication and Response
Customers and consumers	• Products and service quality • Protection of consumers' interest	• Implement customer satisfaction survey • Customer communication and compliant handling • Establish a complete information exchange mechanism
Staff	• Reasonable remuneration and benefits • Staff training, development and promotion • Staff care and welfare • Democratic management	• Organize employee training activities • Arrange for medical checks and care for mental and physical health of staff • Establish a feedback and communication mechanism with multiple channels
Investors	• Investment return • Timely and transparent disclosures	• General meetings • Announcements and disclosures • Investor relations email box
Partners and industry partners	• Maintain sound industrial development • Win-win partnership	• Conduct regular supervision on suppliers • Maintain long-term partnership with qualified suppliers • Host industry exchange and promotion activities
Media	• Positive interactive with media • Keep information transparent	• Provide publicity materials and products on a timely manner • Disclose information through multiple channels

Environmental, Social and Governance Report

Stakeholders	Appeals and Expectations for the Company	Communication and Response
Community	• Support for community charity • Promote healthy knowledge and culture	• Launch volunteer service and public charity campaigns • Promote knowledge of safety of food and pharmaceuticals to citizens
Environment	• Environment protection • Energy conservation	• Constantly improve the environment management and examination system • Proactively identify factors affecting the environment and potential risks • Effectively monitor, analyze and assess emission and energy consumption performance

2.3 Analysis of Material ESG Issues

As the Company's business continues to evolve in a fast changing external environment, it is necessary to determine the priorities of the contents and various issues addressed by the ESG report for the year by identifying and prioritising ESG issues material to Zhongzhi Pharmaceutical through stakeholder engagement and materiality analysis during the year, in order to respond to the concerns of stakeholders. By taking into account our development strategy, the approach of Zhongzhi Pharmaceutical to corporate social responsibility and the outcome of stakeholder communication, we have shortlisted the following 20 issues of most concern to our stakeholders, and then prioritised them based on their materiality to stakeholders and the Company.

Table 3 Zhongzhi Pharmaceutical's Material ESG Issues for 2019

Issues of high materiality	1	Product quality and safety
	2	Occupational health and safety
	3	Compliant operation
	4	Talents attraction and retention
Issues of medium materiality	5	Protection of intellectual property rights
	6	Employee training and development
	7	New product research and development
	8	Ecology protection
	9	Information security and transparency
	10	Waste treatment
	11	Prevention of child and forced labour
	12	Supplier management
	13	Anti-corruption
	14	Public welfare participation and contribution
	15	Energy conservation
	16	Emission management
	17	Packaging materials management
Issue of low materiality	18	Water conservation
	19	Relationship with government
	20	Greenhouse gas emissions

Environmental, Social and Governance Report

ESG REPORTING ISSUES MATERIALITY MATRIX

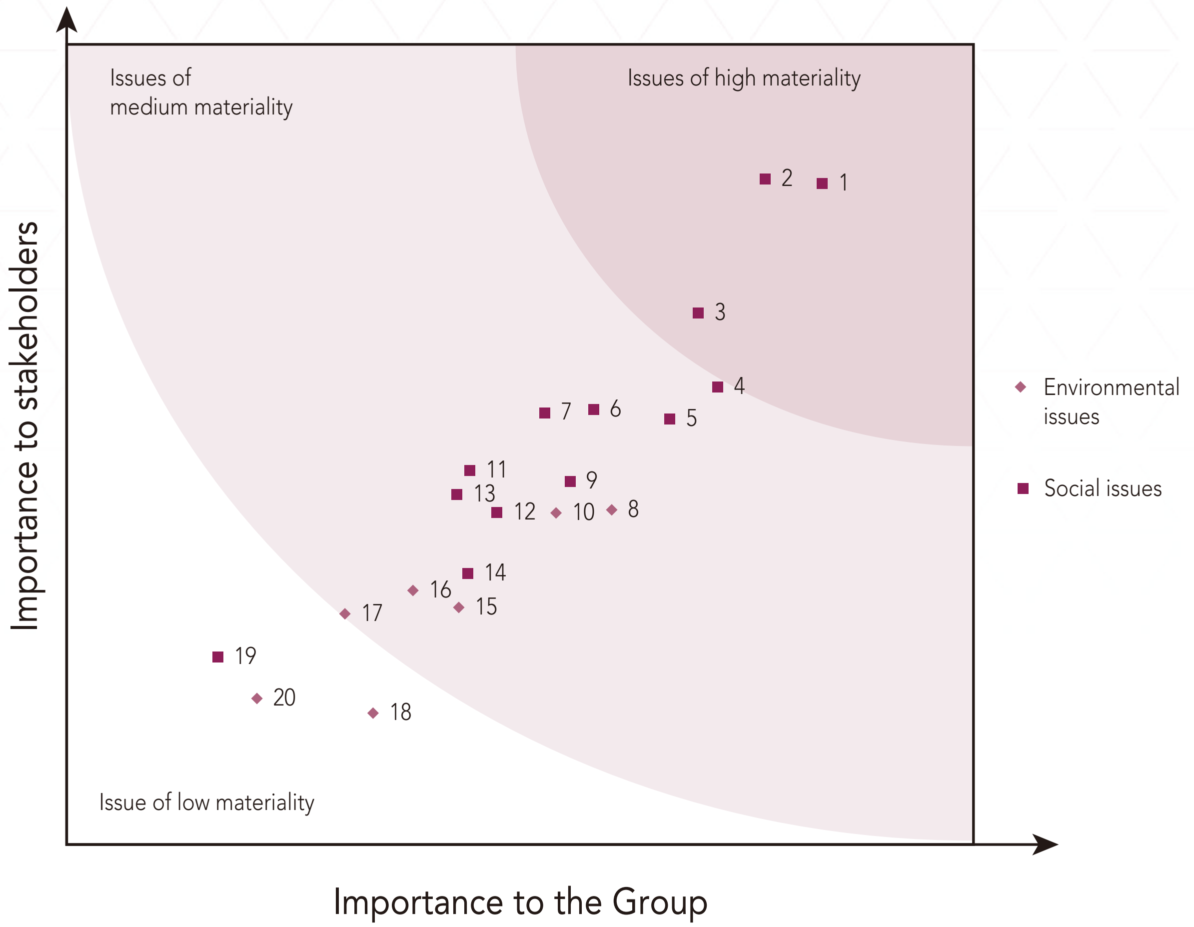


Chart 1 Zhongzhi Pharmaceutical's ESG Materiality Matrix for 2019

Environmental, Social and Governance Report

3. GREEN OPERATION

Zhongzhi Pharmaceutical upholds the philosophy of green operation and strictly complies with applicable laws and regulations on environmental protection, while regularly tracking our compliance with the requirements and robustly controlling risks in environmental protection compliance. We have established a comprehensive environment management system to quantify and monitor our emissions and usage of resources under an effective organizational and information framework. We continue to improve our environmental performance by carrying other dedicated projects.

ESG issues involved in this chapter

- Emission management
- Greenhouse gas emissions
- Waste management
- Energy conservation
- Water conservation
- Packaging materials management
- Ecology protection

Our management policy

- Strengthen the monitoring of exhaust emissions, improve sewage discharge standards, improve solid waste management, to achieve green production
- Energy conservation, establish water conservation enterprise, reduce the use of packaging materials, to achieve equipment management efficiency enhancement and clean production
- Protect biodiversity, pay attention to self-development and environmental protection, and become a responsible green enterprise

Our management system

- Environmental Protection Management System of Zhongzhi Pharmaceutical Company
- Sewage Discharge Management System
- Gas Emission Management System
- Solid Waste Management Measures
- Workplace Safety Management System of the Zhongzhi Pharmaceutical Group
- Environmental Protection Emergency Plan

3.1 Green Production

The Group constantly enhances green production to establish itself as a green enterprise through improving system and framework development, refining environment information management and raising staff awareness of environmental protection.

Environmental, Social and Governance Report

3.1.1 Emission management

The Group puts strong emphasis on the environmental impact caused by its production process. In compliance with laws and regulations such as the Environmental Protection Law of the People's Republic of China and the Administrative Measures on Environmental Protection for Pharmaceutical Industry, we have formulated and implemented the "Environmental Protection Management System of Zhongzhi Pharmaceutical Company". All subsidiaries are required to develop their own detailed policies including the Sewage Discharge Management System, Gas Emission Management System and Solid Waste Management Measures in line with their own production processes and compliance requirements on environmental protection. We regularly assess the suitability of our environmental policies in view of the compliance requirements in the places where we operate and amend them where necessary. Subsidiaries of Zhongzhi Pharmaceutical are committed to reducing the waste pollution to the surrounding ecological environment, and ensuring that the impact of production and operation activities on the environment is minimized. In 2019, Honeson Pharmaceutical, a subsidiary of the Group, launched the "Clean Production" initiative, strengthened the management and monitoring of various pollutant emissions, continued to carry out clean production, and further achieved "emission reduction and pollution reduction". The subsidiary passed the Cleaner Production Audit of Zhongshan Ecological Environment Bureau on 10 December.

Gas emission management

The Group's gas emissions mainly come from organized emission arising from the operation of gas boilers. Key controlled emissions include nitric oxide, sulfur dioxide and particulate matters. We conduct regular repair and inspection on our boilers and related equipment, as well as environmental protection facilities, and have engaged a qualified third-party testing firm to monitor our gas emission, ensuring that they meet the standard.

Sewage discharge management

The Group's sewage is generated mainly from the production of Chinese patent medicine and decoction pieces products and equipment maintenance, and discharged into the municipal drainage pipeline after being treated in the sewage treatment facility located in the factory. Then, it is further treated through the municipal sewage treatment system to further mitigate its impact on the environment. In accordance with the Water Pollution Prevention Law of the People's Republic of China and requirements the Sewage Discharge Management System, we make detailed records on the daily operation and maintenance of sewage treatment facility and conduct discharge examination each year. In case of equipment failure or emergency, our operators will take corresponding steps pursuant of the Environmental Protection Emergency Plan to avoid or mitigate water pollution.

Environmental, Social and Governance Report

Solid Waste management

In accordance with the Law of People's Republic of China on the Prevention and Treatment of Solid Waste Pollution to Environment and other local regulations and industry standards, Zhongzhi Pharmaceutical has formulated various policies including the Solid Waste Management Measures, to enable systematic management of wastes, which are classified as hazardous or non-hazardous, generated from research, production and office operation.

Hazardous wastes generated by the Group mainly include waste liquids from laboratory and reagents as well as waste medicines. Pursuant to the Pollution Control Standard for Hazardous Waste Storage of China and other rules, we have set up storage areas for hazardous wastes and prominent hazard warning signs, appointed dedicated personnel who are responsible for the storage, transport, handling and contingency management of hazardous wastes, and conducted prudent review and filing of important documents such as disposal contracts and transfer notes of hazardous wastes.

Non-hazardous wastes are classified as recyclable or non-recyclable. Recyclable wastes such as used cans, used corrugated paper are recovered by recycling agencies regularly, while non-recyclable wastes will be stored centrally and disposed of periodically.

Environmental, Social and Governance Report

Table 4 List of Emissions

Type of Emissions	Name	Unit	2019	2018	2017
Waste gas and water emissions produced in the process of operation	NO_X	Tonne	3.30	2.94	2.19
	SO_2	Tonne	0.17	0.15	0.59
	PM	Tonne	0.13	0.10	0.47
	Chemical Oxygen Demand (COD)	Tonne	7.16	8.10	7.65
	Ammonia nitrogen	Kilogram	89	102	19.19
	Waste water from production	Tonne	166,805	161,673	156,592
	Office and domestic waste water	Tonne	21,021	24,845	21,111
Emission quantity of greenhouse gases[1]	Scope 1: Emission quantity of greenhouse gases generated from combustion of fossil fuels	tCO_2e	2,934.07	2,654.27	256.99
	Scope 2: Emission quantity of greenhouse gases generated from consumption of power and steam	tCO_2e	13,127.29	10,558.31	8,196.50
	Total emission quantity of greenhouse gases	tCO_2e	16,061.36	13,212.58	8,453.49
	Total Intensity of greenhouse gases	tCO_2e/revenue in million	11.97	11.57	8.95
Hazardous wastes quantity	Waste liquids from laboratory	Tonne	4.79	4.12	3.55
	Waste medicines	Tonne	1.10	1.19	0.30
	Other hazardous wastes	Tonne	1.20	0.29	0.80
	Total quantity of hazardous wastes	Tonne	7.09	5.60	4.64
	Intensity of hazardous wastes	K.g./revenue in million	5.29	4.90	4.91
Non-hazardous wastes quantity	Office and domestic wastes	Tonne	176.01	221.29	213.05
	Discarded packaging materials	Tonne	53.05	46.50	34.66
	Wastes containing Herb residues	Tonne	776.60	744.80	902.15
	Other general industrial wastes	Tonne	1.35	1.04	2.00
	Total quantity of non-hazardous wastes	Tonne	1,007.00	1,013.63	1,151.86
	Intensity of non-hazardous wastes	Tonne/revenue in million	0.75	0.89	1.22

1 The calculation method of the greenhouse gas emissions in this report mainly refers to the relevant contents listed in the "Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Enterprises in Other Industries by the National Development and Reform Commission (Trial)".

Environmental, Social and Governance Report

3.1.2 Resource utilization

Energy conservation

Zhongzhi Pharmaceutical places strong emphasis on efficiency of resource utilization and energy conservation and emission reduction. Adhering to the equipment energy management policy to "improve overall efficiency, ensure normal operation and reduce operating costs" and by continuously optimizing the establishment of relevant systems, it improves energy efficiency and reduces greenhouse gas emission through day-to-day lean management and implementation of transformation projects for energy conservation. We formulated the "Workplace Safety Management System of the Zhongzhi Pharmaceutical Group", which provides that routine inspections must incorporate examinations of equipment operation, lighting management, pipeline closure and other aspects, and revised the "Specification of Good Condition of Equipment" to normalize daily operation management, maximize the utilization rate of the Company's production equipment, to avoid energy waste. Workshops of each subsidiary actively responded to the energy conservation cal of the Group and explored energy conservation in depth so as to maximize energy management in safety inspection and energy-consuming equipment maintenance in line with their own circumstances.

In 2019, the Group formally launched the "Efficiency Improvement Program for Equipment and Facilities Management" and established a "Management Efficiency Improvement" action group led by the Group's executive directors and the leadership of the Safety Office, set action targets from saving power and water for production and improving equipment utilization, and comprehensively standardized the management of idle equipment by strengthening the strict energy-saving implementation system, improving the new approval procedures for equipment engineering projects. It adopted "Internet + equipment" data-based monitoring and operation, to save energy use in three areas, i.e. the management mechanism secure, efficiency improvement, and equipment improvement.

In 2019, the management efficiency improvement projects of the Group achieved results. The total energy consumption was 35.51 GWh, and the intensity of energy consumption is 26.30 MWh per million revenue, a decreases of approximately 5% comparing to 2018.

Water conservation

Zhongzhi Pharmaceutical is committed to being a practitioner and promoter of water-saving actions. According to the Environmental Protection Management System of Zhongzhi Pharmaceutical Group, it promoted the rational and recycled use of water to continuously improve the utilization of water resources. The Group's subsidiaries and production units also continued to consolidate employees' water-saving consciousness through the reuse of equipment and water resources. In 2019, Honeson Pharmaceutical, a production unit of the Group, carried out "water-saving enterprises" certification, specified a reasonable water-saving transformation plan by understanding the current situation of the water use of the Company, to improve water management. By improving accuracy of water meters monitoring and other measures, the overall water resource utilization was improved. Honeson Pharmaceutical obtained the certificate of "Water-saving Enterprise" through expert review on 11 December.

In 2019, the Group's intensity of water consumption is 159.52 tonnes per million revenue, which is 17% lower than 2018.

Environmental, Social and Governance Report

Packaging materials usage reduction

To ensure the quality of our diversified products, the Group uses packaging materials including composite membrane, paper materials and plastics. Without prejudice to product storage, Zhongzhi Pharmaceutical continues to upgrade its packaging process to reduce usage of packaging materials and printing ink, and to mitigate the impact on environment throughout the product life cycle.

Table 5 List of Resource Consumption

Type	Name	Unit	2019	2018	2017
Fossil fuel	Gasoline	Liter	86,310	66,013	57,521
	Diesel	Liter	30,796	29,305	25,606
	Natural gas	m^3	1,187,850	1,091,276	499,779
Purchased power	Outlet power consumption	KWh	4,984,655	4,755,546	3,001,996
	Office power consumption	KWh	2,611,230	1,645,702	1,211,585
	Power consumption in production	KWh	12,288,734	10,330,575	8,627,537
	Total power consumption[2]	KWh	19,884,620	16,731,824	12,841,118
Purchased steam	Steam	Tonne	2,753	3,440	1,268
Total energy consumption		GWh	35.31	31.49	20.33
Intensity of total energy consumption		MWh/revenue in million	26.30	27.57	21.52
Water resource	Office and domestic water consumption	Tonne	32,571	33,852	29,276
	Water consumption for production	Tonne	181,539	176,016	174,862
	Total water consumption	Tonne	214,110	219,827	204,138
	Intensity of water consumption	Tonne/revenue in million	159.52	192.47	216.10
Packaging materials	Metal	Tonne	1,474.24	1,079.19	845.31
	Plastics	Tonne	597.44	504.23	745.58
	Paper materials	Tonne	1,159.92	1,137.4	1,112.3
	Composite membrane	Tonne	448.70	372.54	352.47
	Total consumption of packaging materials[3]	Tonne	3,680.31	3,093.38	3,055.66
	Intensity of packaging material consumption	Tonne/revenue in million	2.74	2.71	3.23
Herbs	Raw herbal medicinal materials	Tonne	2,227	1,810	2,306

2 As the Group's production capacity increased during the year, the total consumption of purchased power increased.
3 As the Group's production capacity increased during the year, the total consumption of packaging materials increased.

Environmental, Social and Governance Report

3.2 Protection of Ecological Environment

As a responsible green enterprise, Zhongzhi Pharmaceutical always strives to balance the corporate development and the sustainable social development. We identify the possible impact of our own activities, products and services on the ecological environment through a range of systematic procedures, while identifying, monitoring and reviewing stakeholders' expectations for ecological environment protection via clear internal division of duties. We have formulated and implemented the "Environmental Protection Emergency Plan", which seeks to minimise the negative. impact of any accident occurring in production on the ecological environment. The Group is also committed to the development of standardized plantation bases for Chinese medicine herbs and attaches great importance to biodiversity protection, in order to develop Chinese medicine resources while further reducing the environmental impact of base planting activities. In 2019, the Group conducted research with China Academy of Chinese Medical Sciences to improve the cultivation of traditional Chinese medicine through ecological technologies, reduce the use of pesticides and inhibit the accumulation of heavy metals in some traditional Chinese medicine cultivation, protect the local soil environment, and contribute to biodiversity protection.

4. EMPLOYMENT

Zhongzhi Pharmaceutical adheres to the protection of employees' rights and interests, conducts employee training, and implements a number of employee care programs to provide a broad development space for various talents.

ESG issues involved in this chapter

- Talent attraction and retention
- Occupational health and safety
- Employee training and development
- Prevention of child and forced labour

Our management policy

- Tolerated and people-oriented

Our management system

- Human Resources Management System
- Staff Code of Ethics

Environmental, Social and Governance Report

4.1 Protection of Staffs' Interests

4.1.1 Equal employment

Zhongzhi Pharmaceutical regards human resources as the utmost resource by delivering systematic and formal optimization management for resource personalization and revitalization. The Group strictly complies with laws and regulations promulgated by national and local government, and formulates and implements various systems, such as the "Human Resources Management System", which sets requirements in respect of employees recruitment, appointment, promotion, termination, staff training, code of conducts, working hours, performance appraisal, benefits packages, diversification and anti-discrimination, in order to fully achieve the talent strategic objectives of the Company.

The Group adheres to upholding the principles of "justice, fairness and openness", and will not discriminate any employee based on their social identity, such as ethnicity, race, nationality, religion, gender, age, sexual orientation, political factions and marital status, when it comes to their employment, remuneration and promotion. The Company strictly complies with the Labour Law, the Employment Contract Law and other laws of the People's Republic of China. The labour contract is entered into upon negotiation between the Company and employees to protect the rights and interests of both parties. The Company manages the turnover of employees and stipulates the approval procedures for termination in the Company's internal system. During the reporting period, there is no non-compliance in relation to default in compensation payment or breach of the minimum wage standard. The Company also strictly complies with the "Provisions on the Prohibition of Using Child Labour" issued by the State Council with stringent scrutiny of candidate identity during recruitment. In case the Group discovers the employment of child labour, the child labour would be sent to his/her original place of residence and handed over to their parents or other guardians by the relevant authorities. In summary, Zhongzhi Pharmaceutical did not have any non-compliance or complaint related to human rights or labour practice with a significant impact on the Group during the reporting year.

The Company has made clear provisions for new hire evaluation and employee rehiring. The Management Rules on the Confirmation of Probation for New Employees of the Group (2018 Trial) is designed to govern the management process of the confirmation of probation for new hires with comprehensive evaluations on their suitability for the position, together with support for employees to swiftly adapt to their positions and corporate culture. The Company has formulated the Management Rules on Employee Rehiring (2018 Trial) to govern the rehiring mechanism for retirees and fully protect their lawful interests, helping them to comfortably make the most of their advantage in experience for the Company.

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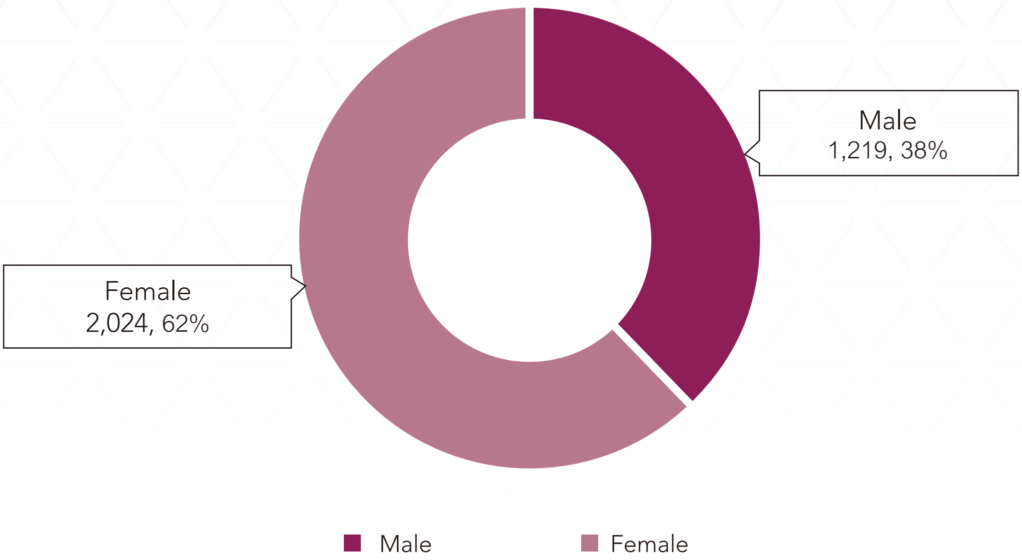
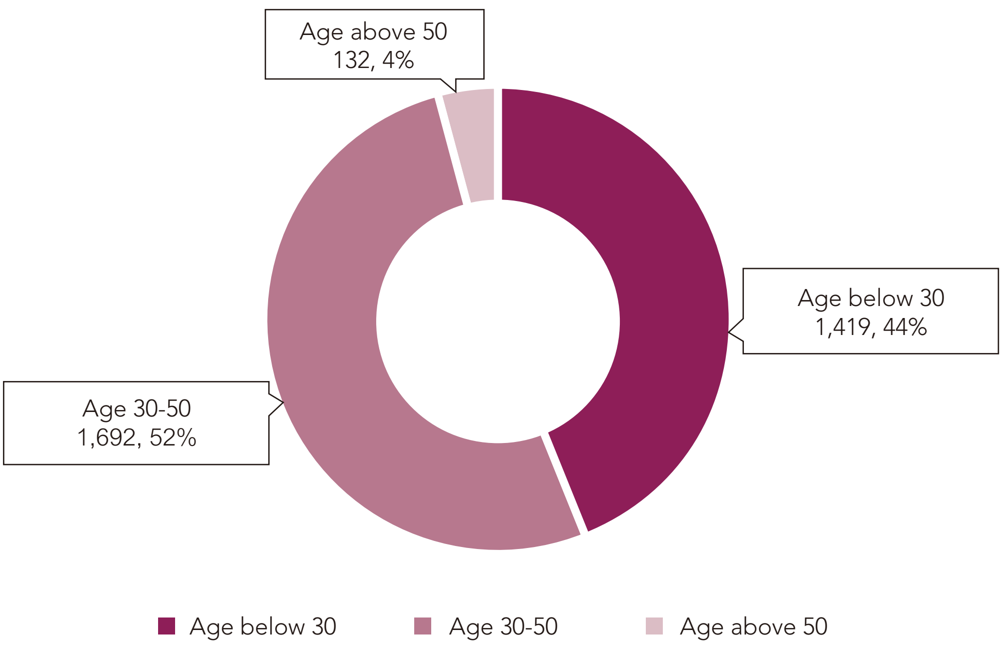
By 31 December 2019, the total number of employees is 3,243.

Total number of employees by gender



Total number of employees by age



Environmental, Social and Governance Report

4.1.2 Protection of remuneration and benefits

The Group formulated policies such as the Attendance Management System and the Remuneration Structure Management Methods, to regulate attendance and vacation and provide basis for pay and benefits and effectively safeguarding employees' interests. The policies of the Company expressly require that the staff remuneration comprises of basic salary, and other allowances, commissions, bonuses and contributions to the mandatory provident fund or stated-managed retirement benefit scheme; other benefits include share options granted under the share option scheme and shares granted under the share award scheme. At the same time, we provided our staff with various holidays and benefits, such as paid holidays, social and commercial insurance, housing funds, corporate annuity, annual body check, education, and continuing education opportunities.

4.1.3 Protection of safety and health

Zhongzhi Pharmaceutical consistently improves workplace safety conditions as the foundation for safeguarding the occupational health of employees.

Safe production

The Group strictly complies with the "Production Safety Law of the People's Republic of China" and formulated the Safety Standard Document. Under the document, the Group requires that production areas should be designed reasonably to separate hazardous operating area from non-hazardous ones, and that alarm systems are installed, emergency plans are formulated, on-site emergency appliances are set and necessary venting areas are in place, so as to provide work environment and conditions which meet the occupational health requirements. In 2019, the Group continued to improve the safety management system, set up annual safety production targets for the Group and its subsidiaries, and promoted to achieve such targets by strengthening the reminding of risk points in key areas, potential safety hazards checking and rectification, safety training and drills, and implementation of operating position certification and implementation of the safety reward and punishment system.

Key Safety Work in 2019
Update safety risk identification The Group has updated the key production areas and regions where chemicals are used, supplemented with risk identification such as safety operation points and safety notice boards, and strengthened the visualization of safety risk prompts so as to communicate safety technology points to employees more directly.

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Key Safety Work in 2019

Potential safety hazards checking and rectification

During the year, the Group carried out 131 safety inspections on key areas, special electrical projects, typhoon safety, fire protection systems, construction sites and other scenes or topics. A total of 480 hidden dangers were detected, and all rectifications were completed on time.

Safety education and training

During the year, the Group carried out 14 large-scale safety trainings and 21 safety conferences, covering topics such as mechanical injury safety, electrical safety, and office area safety, so that key concepts and knowledge of safe production were effectively implemented and communicated.

In 2019, the total days of common work injury related leave taken by the employees of the Group were 596, there were 5 times of common work injury incidents, representing a decrease of 76% compared to 21 times in 2018, which satisfied our target of year-on-year decline in work-related accidents. There was neither serious nor fatal incident.

Occupational health

The Group is dedicated to the protection of the health and related rights and interests of employees by mitigating occupational hazards and preventing occupational diseases. According to the Law on the Prevention and Control of Occupational Diseases of the People's Republic of China, the Management Rules of Occupational Health and other laws and regulations, we have formulated the Management System of Corporate Potential Occupational Hazards, performing regular review of causes of occupational hazards. In addition, the Company arranged for relevant personnel to have professional medical check, and those in special positions shall conduct special medical check at the Disease Control Center or the approved and recognized hospitals, and the result of the medical check shall be included in the "Occupational Health Monitoring File".

In accordance with the Management Rules of Occupational Health, We have prepared labor protection articles such as anti-static clothing, anti-dust respirators, sterilized gloves and others for every position in workshop, while requiring the department which generates dust to strictly manage all dust-generating equipment and opening and closing of dust source points. Warning signs were posted in obvious workplaces for the operational positions that are vulnerable to occupational diseases as a reminder for the threat imposing by such diseases.

4.2 Training and Development

4.2.1 Staff training

Zhongzhi Pharmaceutical values the improvement in the professional quality of staff and provides a comprehensive training system for employees to maintain occupational and professional competitiveness in support of its long-term development. The Company has formulated, among others, the Management System on Training, the Training Structure and Plan, adopted diversified training opportunities, including corporation-level training, department training, external training, orientation training, transfer training, promotion training, special work training, and other specific training, while encouraging employees to take further education in pursuit of higher degree and professional title.

In 2019, the Group conducted a number of trainings at the level of the Group and its subsidiaries based on the overall business development trend, the new amendments to the Medicine Management Law of the People's Republic of China and the requirements of GSP and GMP external review and certification. The participants received about 54 hours of training on average.

"Hundred Days of Empowerment" program of the Group's chain pharmacy

Zhongshan Zhongzhi Chain Pharmacies Company Limited, a subsidiary of the Group, launched the "Hundred Days of Empowerment" training program during the year. By systematically training new employees, the professional knowledge and sales skills of employees may be effectively improved to meet the rapidly growing needs of the Group's business. The training was conducted through video learning, webcasting and competitions on knowledge and skills of such aspects as product knowledge, disease knowledge and sales skills, to ensure the effectiveness of training through unified examinations. In the end, a total of 564 new employees completed the program, which strengthened the talent pool of the Group's chain business.

4.2.2 Occupational development

The Company adopts the principle of the "Integration of uniform plan, personnel leveling and diversification of methods with supervision control", encouraging employees to obtain occupational development opportunities through outstanding performances and work performances. On a semi-annual basis, we will evaluate the performance of managerial and technical employees, and offer promotions based on their performance. The Company has formed a talent pipeline program, conducted selection and evaluation for all the classes of position, so as to optimize human resource distribution and internal promotion, and train employees to become leaders of respective fields.

4.3 Staff care and communication

By putting in place various people management policies for staff care, and hosting a wide range of activities, such as garden party, annual tour and birthday gifts, the Group aims to create a harmonious and friendly workplace atmosphere and an active workplace environment for employees. During the year, the Group completed the decoration and delivery of staff canteens, providing employees with a better dining environment.

We have formulated the Management Procedures of Staff Whistle-blowing and Complaints to provide employees with communication and feedback channels such as regular staff and department meeting, internal publication and bulletin board, intranet communication, while conducting employee satisfaction survey to understand their needs and facilitate democratic management.

Environmental, Social and Governance Report

5. SUPPLY CHAIN MANAGEMENT

ESG issues involved in this Chapter

- Suppliers management

Our management policy

- Quality first

Our management system

- Management Regulations on Suppliers

5.1 Appraisal and Review of Suppliers

Zhongzhi Pharmaceutical ensures the procured materials satisfy the requirements of the Group. According to the Pharmaceutical Operation Quality Management Standard and "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province", the Group has formulated the Management Regulations on Suppliers to appraise suppliers in terms of qualification, environmental safety and information access. During the year, the Group conducted quarterly performance evaluations of 10 major Chinese medicinal material suppliers and 11 packaging material suppliers, evaluated multiple dimensions such as delivery quality, delivery service and coordination, and kept the supplier notified of quarterly and requested improvement to the complaints. Through the assessment, we effectively implemented the supplier assessment management system, strengthened supplier management, and provided guarantee for quality and delivery.

Stringent assessment to ensure material quality

We require suppliers to possess materials production and operation qualifications as well as relevant certificates, such as "Permits on Pharmaceuticals Production" and "Business Licenses for Corporations", and the pharmaceuticals registration certificates, drugs packaging certificates, quality standards and verification standards for relevant materials.

To ensure the quality and safety of medicine and other medical products are up to standard, the Company conducts quality assessment on materials and makes objective evaluation of suppliers in consideration of factors such as quality risks for pharmaceuticals, materials usage and the extent of materials' impacts on pharmaceutical quality. We will include those qualified suppliers into the list of qualified suppliers, and specify the permitted scope of materials supply of each supplier, so as to ensure that raw materials procurement is in line with the internal standards of the Company. Any pharmaceuticals or materials found to be sub-standard will be rejected and returned to the suppliers.

Support for accountability to drive common development

Zhongzhi Pharmaceutical supports the information-based operation of suppliers and builds a sustainable supply chain by strengthening the assessment of aspects including environmental risks and operational integrity of suppliers.

Environmental risk control: We perform environment evaluation on suppliers in the process of appraisal and sign environmental protection agreements with them and put forward requirements for suppliers in aspects of packaging materials reduction, energy-saving and emissions reduction, chemical management and product transportation, to improve the management standard of environmental risks for our supply chain.

Operational integrity assessment: The Group implements disciplinary management on suppliers, which are required to sign an integrity agreement covering operation with integrity and self-discipline. Bribery of any kind is strictly prohibited in procurement.

5.2 Geographical Distribution of the Suppliers

Zhongzhi Pharmaceutical selects quality suppliers from all over the country to ensure product quality. As of 31 December 2019, Zhongzhi Pharmaceutical had a total of 728 suppliers all from Mainland China, of which 400 were located in Southern China and the remaining 328 in the rest of China.

6. PRODUCT RESPONSIBILITY

ESG issues involved in this Chapter

- Product quality and safety
- Information security and transparency
- New product R&D

Our management policy

- Quality first, service first, creating boutiques and pursuit of excellence

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Our management system

Raw materials management

- Quality Standard for the Ecological Environment in Standardized Chinese Herb Plantation Bases
- Selection and Assessment Criteria for Standardized Chinese Herb Plantation Bases
- Management System of Production and Operation for Standardized Chinese Herb Plantation Base
- Technical Guidelines for the Development of Ecological and Traceable Bases of Chinese Decoction Pieces
- Assessment Criteria for the Chinese Herb Ecological and Traceable Bases of Zhongzhi Pharmaceutical Group
- Herbs Numbering Management System

Product quality management

- Administrative Measures for Drug Registration
- Administrative Measures for Supervision on Drug Production
- Quality Control Rules for Drug Production
- Pharmaceutical Operation Quality Management Standard
- Management Standard for Medicine Instruction and Label Filing
- Management of Pharmaceutical Inspection and Acceptance

Product after-sales and recall management

- Management Standards on Recall, Rework, Reprocessing and Re-packaging
- Administrative Measures for Drug Recalls
- Emergency Plan for Material Quality and Safety Incidents of Products
- Management System for Sub-standard Product Disposal
- Operating Procedures for Quality Control Standard of Returned Products
- Management of Drug Inspection and Acceptance
- Management of Consumer Complaints
- Management and Measures of Consumer Privacy Protection
- Complaint Management Standard
- Standard Operating Procedures for Complaint Handling
- Management and Measures of Consumer Privacy Protection
- Requirements on Relevant Works on Confidentiality of Corporate Technologies

6.1 Products Quality Assurance

In August 2019, the amendment to the "Drug Management Law" was passed to further strengthen drug supervision and management, ensure public drug safety, and promote the development of the drug industry. Zhongzhi Pharmaceutical attaches great importance to product quality management. With the goal of "creating a healthy life through intelligent manufacturing", it is committed to making quality management one of the core competitiveness of the Company, continuously improving the quality management system, and insisting on providing healthy and safe products to the public.

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6.1.1 Quality management system

The Administrative Quality Center of the Group comprehensively interpreted the "Drug Management Law" and strictly complied with the requirements of the revised contents including the Drug Marketing Authorization Holder System (MAH) and the Pharmacovigilance (PV) system, and continued refine based on the existing quality management system of the Group. Based on the Quality Control Rules for Drug Production (GMP) and the Pharmaceutical Operation Quality Management Standard (GSP), the Company established and improved the Administrative Measures for Supervision on Drug Production, the Administrative Measures for Drug Registration and other management systems to fully guarantee the safety, effectiveness and quality reliability of drugs in the entire process of drug development, production, operation and use.

Zhongzhi Pharmaceutical Group conducted study on Medicine Management Law

In order to comprehensively interpret and implement the amendments to the Drug Administration Law, Zhongzhi Pharmaceutical conducted a group-wide interpretation of laws and regulations and quality management training in September 2019, aiming to improve the understanding and recognition of the Drug Management Law by the management team and enhance drugs quality management responsibility and action.

The Administrative Quality Center of the Group cooperates with the quality management departments of the production units and continues to promote the construction of a quality management standardization system for each production unit in accordance with the Measures for the Supervision and Administration of Pharmaceutical Production and the Measures for the Administration of Drug Registration. In July 2019, two new workshops of Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. obtained GMP certificates. The certification experts highly praised the advanced production lines, management software and hardware supporting levels and advanced experience of Zhongzhi Pharmaceutical. As of the end of the reporting period, the production units have passed GMP certification, and the Group and chain drug business units have passed GSP certification.

At the same time, Zhongzhi attaches great importance to product quality verification and continues to advance the quality standardization of laboratories. In 2019, the Testing Center of Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. was awarded the "Laboratory Accreditation Certificate" (Registration No.: CNAS L 12238) issued by China National Accreditation Service for Conformity Assessment (CNAS). The permitted inspection covers a total of 26 items including the routine inspection items, safety inspection items (heavy metals and harmful elements, baicaline toxin, sulfur dioxide residue, pesticide residues), new technology inspection items (fingerprint/characteristic map, polymerase chain reaction), etc., marking the testing capability of laboratory of Zhongzhi Pharmaceutical has been recognized by China National Accreditation Service for Conformity Assessment, and has played a good role as an example for the development of innovative Chinese medicine industry and the promotion of national drug quality and safety supervision and internationalization.

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6.1.2 Promote the establishment of quality standards for traditional Chinese medicine

The establishment of quality standards for traditional Chinese medicine is a topic of common concern and dedication to improvement in the industry. Zhongzhi responded to the requirements of the "drafting of uniform drug traceability standards and specifications in the new Medicine Management Law, promoting the exchange and sharing of drug traceability information, and achieving drug traceability", and with reference to the Pharmaceutical Operation Quality Management Standard, the Company has formulated a series of management systems, including the Quality Standard for the Ecological Environment in Standardized Chinese Herb Plantation Bases, the Selection and Assessment Criteria for Standardized Chinese Herb Plantation Bases and the Management System of Production and Operation for Standardized Chinese Herb Plantation Base, in order for the standardized management featuring centralized seedling planting, centralized cultivation, centralized management and consistent standards, and to promote the establishment of authentic medicinal ecological traceability bases relying on the technical advantages of decoction pieces.

Compared with traditional decoction pieces and formula granules, decoction pieces have certain advantages in terms of stability, safety and controllability. In order to ensure the quality of decoction pieces and the safety and effectiveness of clinical medicines, Zhongzhi has continuously established and improved the quality assurance system and traditional Chinese medicine source system of the entire industry chain of traditional Chinese medicine, and formulated the Technical Guidelines for the Development of Ecological and Traceable Bases of Chinese Decoction Pieces and Assessment Criteria for the Chinese Herb Ecological and Traceable Bases of Zhongzhi Pharmaceutical Group, further standardized the principles for the construction of ecological traceability systems for decoction pieces. Since 2015, Zhongzhi has built the first comprehensive monitoring platform for the production of traditional Chinese medicinal materials. Since then, the Company has comprehensively carried out the ecological traceability cultivation of Chinese medicinal materials, and conducted real-time monitoring of the entire process of raw material cultivation. As of the reporting period, Zhongzhi Pharmaceutical has established 31 authentic traceability bases of authentic medicinal materials across the country to ensure the stability of the supply of raw materials and the stable quality. It also guarantees the authenticity, locality and safety of raw materials and medicinal products such as decoction pieces from the source.

In addition, Zhongzhi actively carried out research on DNA and fingerprints of traditional Chinese medicine, and actively assisted the systematization and standardization of the quality of traditional Chinese medicine. During the reporting period, the transformation of 5 fingerprints including Houttuynia cordata, Angelica sinensis, Cassia seed, Epimedium, Chrysanthemum has been completed.

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6.1.3 Quality audit

In order to further implement the requirements of the MAH system in the Medicine Management Law, Zhongzhi, led by the Group, formulated annual quality audit work plan in accordance with the Administrative Measures for Supervision on Drug Production, and conducted at least one annual quality audit of the production units, conducted a comprehensive evaluation in accordance with the five elements of "human, machine, material, law and environment" in accordance with the GMP norms, and assisted each production unit to respond to the quality inspection from the drug supervision and management department, timely identify problems to be improved in quality management and provide suggestions for improvement.

During the reporting period, the Group and its production units carried out internal quality audits, and received multiple quality inspections and GMP random inspections from the drug supervision and administration department. No major quality problems occurred, and rectifications were completed in a timely manner under the guidance of on-site inspection experts, effectively improving the overall quality management level.

The automated production line of the Chinese Medicine Herb in Pieces Co., Ltd. gained high recognition from GMP experts

The new production line of the Chinese Medicine Herb in Pieces Co., Ltd. passed GMP certification in July 2019. Its highly automated production equipment and many processing technologies are at the leading level in the industry. During the certification process, GMP experts highly praised the automated production workshop of the decoction company. They considered that the highly automated production line "improving product quality, labor efficiency and human efficiency", and is reflection of "vision, resolution and innovation".

For possible product quality issues, Zhongzhi has formulated the Emergency Plan for Material Quality and Safety Incidents of Products, the Management System for Sub-standard Product Disposal, the Operating Procedures for Quality Control Standard of Returned Products, the Management of Drug Inspection and Acceptance and the Management of Drug Recalls, to ensure that the quality of medicines are secured through quality examination and that products can be traced and recalled in a timely manner in case of significant quality or safety incident.

During the reporting period, the Company did not have any sold products that required a recall due to safety and health concerns.

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6.1.4 Protection of customer rights

During the operation and management of chain pharmacies, Zhongzhi strictly complied with the requirements of drug management in the Medicine Management Law and the Law on Protection of Consumer Interests, and formulated Management of Consumer Complaints, the Complaint Management Standard and the Standard Operating Procedures for Complaint Handling to provide customer with communication channels including service hotline, email box and official Weibo account, each with a dedicated department responsible for follow-up with customer feedback.

In the meantime, in the online and offline pharmaceutical business process, Zhongzhi attaches great importance to consumer privacy protection, and formulated the Management and Measures of Consumer Privacy Protection, which comprehensively guarantees the security of personal information of customers in the process of consulting and purchasing products. It continuously improves the construction of information system security, and carry out standardized data security and privacy protection laws and regulations and company system announcements for all employees in the pharmaceutical business unit, ensure that employees properly handle and keep the customers' personal information, and seriously deal with illegal leakage of customer privacy.

Regular training sessions are provided to employees to improve their legal and professional qualities, and all employees are required to keep consumer privacy in strict confidence with severe consequences for those responsible for illegal leakage of consumer private information.

Zhongzhi Pharmaceutical values the after-sales services for products and the protection of consumer privacy. Pursuant to laws and regulations including the Law on Protection of Consumer Interests, the Company has formulated various policies such as the Management of Consumer Complaints and the Management and Measures of Consumer Privacy Protection, to effectively protect the lawful interests and personal privacy of customers. During the reporting period, the Company did not have any violations of leakage of customer privacy information.

6.2 Insist on Innovation-driven

Zhongzhi Pharmaceutical has continued to invest in R&D and innovation, and has continuously expanded the size of its R&D team. At present, it has 18 national, provincial and municipal scientific and technological innovation platforms, and a research team comprising professors, senior engineers, doctors and masters. It has introduced an academic committee consisting of 16 top experts in various research fields in the domestic pharmaceutical industry, including Academician Zhou Honghao as an academy director of China Academy of Engineering, Academician Wang Guangji and Academician Huang Luqi as deputy director and director. At present, the R&D team has published more than 70 academic papers, 3 of which have been indexed by SCI, and won a number of domestic and foreign invention patents and intellectual property related awards.

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6.2.1 Focus on the research of decoction pieces

Zhongzhi Pharmaceutical attaches great importance to technological improvement and innovation, and is committed to promoting the modernization and internationalization of Chinese medicine. The core product of Zhongzhi Pharmaceutical, which is decoction pieces of Chinese medicine, has the characteristics of high-end, convenient and trendy. It has effectively changed the uneven characteristics of traditional pieces, improved the utilization of traditional Chinese medicine, and achieved controllable quality. In combination with source control, it comprehensively improved the safety, efficacy, stability and controllability of traditional Chinese medicine decoction pieces.

The Group continued to invest in the research on the standard of Chinese medicine decoction pieces, participated in the formulation of 62 local standards of "Chinese medicine decoction pieces", and has the national and local joint engineering research center of Chinese medicine decoction pieces, and key research institutes on the technology and application of Chinese medicine decoction pieces, and other national, provincial and municipal scientific research platforms, undertook more than 40 national torch plans, national major new drug creation and provincial and municipal scientific and technological innovation projects; established close industrial-university-research cooperation with the University of Mississippi, Macau University of Science and Technology, Shanghai Institute of Materia Medica, Chinese Academy of Chinese Medical Sciences and other reputable universities and research institutes at home and abroad.

Chinese medicine decoction pieces was awarded the Natural Product Number of Canada

In May 2019, Astragalus decoction pieces and American ginseng decoction pieces independently researched and developed by Zhongzhi Pharmaceutical successively obtained the NPN and product license issued by Health Canada OTC and Natural Health Products Agency, which promoted the modern Chinese medicine decoction pieces to enter the mainstream market of international medicine.

The main scientific and technological innovations of decoction pieces of Chinese medicine include theoretical innovation, technological innovation, product and industrialization innovation. As an innovative traditional Chinese medicine, the decoction pieces significantly improve the uniformity of traditional decoction pieces, thereby improving the stability of the efficacy and the controllability of quality. At the same time, decoction pieces have obvious advantages in terms of effective utilization of pieces, stability, convenience and safety over traditional Chinese medicine powder.

Zhongzhi Pharmaceutical has successively achieved a number of important results in its research on decoction pieces of Chinese medicine, and has won many honors including the first prize of the Chinese Traditional Medicine Association Science and Technology Award, the Chinese Patent Excellence Award, and the second prize of Guangdong Science and Technology Progress Award.

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6.2.2 Protection of intellectual property rights

Zhongzhi Pharmaceutical values intellectual property rights protection and carried out patent registration and declaration based on the Requirements on Relevant Works on Confidentiality of Corporate Technologies in strict accordance with the Patent Law of the People's Republic of China and the Law on Intellectual Property Rights of the People's Republic of China.

The technology center of the Group comprehensively conducted patent search and investigation of risks before product R&D was initiated, and comprehensively collected and screened relevant patent documents to avoid infringement of external intellectual property rights. The technology center actively registered and applied for patents of the Group's R&D achievements. In 2019, the Group successfully applied for 23 patents (including 20 inventions and 3 designs) and 20 authorization (17 inventions and 3 designs).

The Group also actively safeguarded brand rights in accordance with relevant trademark management regulations and systems, reported to the market supervision and management department and complained about counterfeit and inferior products of well-known trademarks owned by the Group such as "Caojinghua" in the market, and fully protected the Group's intellectual property rights. In 2019, the Group applied for a total of 69 trademarks, including 53 in China and 16 abroad (in the United States, Singapore, the European Union, South Korea, Japan, Canada and India), and obtained 273 trademark registration certificates.

Case: Zhongzhi Pharmaceutical was identified as "National Intellectual Property Demonstration Enterprise"

In December 2019, the State Intellectual Property Office released the "Announcement of the Results of the Review and Re-inspection of National Intellectual Property Advantage Model Enterprises in 2019". Zhongzhi Pharmaceutical was identified as a "National Intellectual Property Demonstration Enterprise". It is the first R&D and production company of new Chinese medicine decoction pieces to receive this award, reflecting the high recognition of the intellectual property management of Zhongzhi Pharmaceutical Group from State Intellectual Property Office and further reflecting the Company's excellent technological innovation ability and strong market competitive advantage.

As of the end of the reporting period, Zhongzhi Pharmaceutical has accumulated a total of 119 invention patent authorizations at domestic and abroad, 784 registered trademarks, 7 copyrights, and 2 famous trademarks in Guangdong Province.

7. ANTI-CORRUPTION

ESG issues involved in this Chapter

- Anti-corruption
- Compliant operation

Our management policy

- continues to promote operation with integrity, strengthen supervision, constantly improve the integrity system, and firmly establish the integrity of employees

Our management system

- Directors and Management's Code of Ethics
- Staff Code of Ethics
- Management Procedures of Staff whistle-blowing and Complaints
- Zhongzhi Pharmaceutical High-voltage Grid Commitment Letter
- Integrity Policies

Zhongzhi Pharmaceutical continues to promote operation with integrity and strictly complies with the Provincial Requirements for Prohibiting Commercial Bribery and other related laws and regulations. We have formulated the policies such as "Directors and Management's Code of Ethics", "Staff Code of Ethics", "Management Procedures of Staff whistle-blowing and Complaints", "Zhongzhi Pharmaceutical High-voltage Grid Commitment Letter" and "Integrity Policies", and the corruption behavior will be rigorously handled by the legal department and legal counsel. The Company communicates stringent anti-corruption and anti-fraud requirements to our staff, while providing them with whistle-blowing channels, so as to enhance corporate governance and internal control as well as safeguard the legal interests of the Company and shareholders.

Zhongzhi Pharmaceutical's Integrity Policies set out a range of requirements for business operation and employee behaviours:

- All staff of the Company shall be subject to the supervision of national and capital market regulatory institutions based on the relevant law, and shall safeguard the legal interests of the Company in a self-conscious manner.

- Staff shall be in strict compliance with the laws as well as regulations and regulatory requirements in relation to anti-business corruption, and distinguish the boundaries between ordinary business dealings and irregular trading. Breaches of business ethics and market rules as well as those improper trading conducts affecting fair competition in operation are strictly rectified. Cooperation with regulatory institutions based on the law is made for the investigation and handling of business corruption cases in breach of laws as well as of giving and receiving properties or other benefits.

- The Company shall strengthen safety management measures such as whistle-blowing mail box, telephone hotline and email, and strictly distinguish the responsibilities and division of labor for whistle-blowing information management and investigation. The usage of information and files shall undergo stringent approval procedures.

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- Staff shall refuse fraud conducts in a self-conscious manner and enhance the corresponding awareness of prevention thereon, while effectively prevent and report fraud conducts. The Company advocates honesty as its corporate culture, and encourages and protects its staff for honestly revealing any conducts in breach of laws and regulations and dishonesty within the Company.

No corruption litigation case was initiated against the Company or its employees for Zhongzhi Pharmaceutical during the reporting period.

8. COMMUNITY SUPPORT

ESG issues involved in this chapter

- Public welfare participation and contribution

Our management policy

- Herbal health, paying attention to national health
- Leveraging advantages to support targeted poverty alleviation
- Feedback to the society with care

Our management system

- Management Regulations on Caojinghua Charity Fund

Zhongzhi Pharmaceutical is a pharmaceutical company with a high sense of social responsibility. While continuously improving its business operations, it also keeps in mind to give back to the society. In recent years, Zhongzhi Pharmaceutical has actively participated in various public welfare and charities, and kept pace with the times to pass on love to those in need through targeted poverty reduction activities. In 2019, Zhongzhi Pharmaceutical made every effort to create the "Healthy Guangdong" Herbal Health Festival, which aims to establish an emerging health concept for the whole society, and promoting the sustainable development of the enterprise while promoting harmonious coexistence and prosperity with the society.

8.1 Herbal Health Festival Facilitating a "Healthy Guangdong"

"Healthy Guangdong" Herbal Health Festival

Chinese medicine is an important part of Chinese civilization. Zhongzhi Pharmaceutical always follows the development law of Chinese medicine and inherits the essence. By giving full play to the unique advantages and role of Chinese medicine in preventing and treating diseases, we will continue to contribute to the high-quality development of Chinese medicine.

In order to promote the popularization of TCM culture, the first "Healthy Guangdong" Herbal Health Festival, jointly sponsored by Guangdong Southern Satellite TV and Caojinghua Herbal Herb, was launched in Guangzhou on 18 November 2019. The Herbal Health Festival has successfully entered Dongguan, Zhongshan, Guangzhou, Huizhou, Shenzhen, Foshan and other regions from its inception to bringing consumers a scientific health concept of "loving health and using herbs". Scientific health knowledge enhances people's health awareness. In the meantime, Zhongzhi Pharmaceutical also focuses on training pharmacists and promotes the professionalism of traditional Chinese medicine health consultants through the "Healthy Guangdong" Herbal Health Festival in order to better provide medical welfare to the society.

Three public welfare consultations focusing on national health

Healthy China is the mainstream of the times, and everyone is the first person responsible for health. On the Herbal Health Festival, Zhongzhi Pharmaceutical has specially set up three public welfare activities to organize health care experts to provide nine kinds of physical diagnosis services to the public for free. For subjects with health-related problems upon the professional diagnosis by the expert, the expert will "bill" on the spot and provide the subject with a "new herbal health card" free of charge, effectively providing benefits for the health of the people.

Zhongzhi Pharmaceutical always regards the realization of national health as the strategic goal of healthy China. The high-quality development of the Chinese medicine industry is of great significance to the realization of national health. The smooth launch of the first "Healthy Guangdong" Herbal Health Festival brought consumers a more efficient and convenient way of herbal health, which is not only beneficial to the construction of healthy China, but also to the development of healthy Guangdong.

8.2 Promoting precise poverty alleviation by continuing specialty industry

Zhongzhi Pharmaceutical vigorously conducted "Precise Poverty Alleviation Project of the Development of Standardized Gastrodia Elata f.Glauca Plantation Base" in 2018, started to help farmers of Gastrodia Elata f.Glauca in Daguan County, Zhaotong, Yunnan Province, and planned to build thousands of acres of Standardized Gastrodia Elata f.Glauca Plantation Base of Zhongzhi Pharmaceutical in Yizhu Village, Daguan County in three years.

In 2019, Zhongzhi Pharmaceutical continued to invest in the "Project for Precision Poverty Alleviation of the Standardized Gastrodia Elata f.Glauca Plantation Base" and achieved initial results. Adhering to the concept of "changing traditional farm work into knowledgeable and intelligent work", we have implemented the concept to help farmers in Daguan County. Zhongzhi Pharmaceutical not only provided farmers with Gastrodia species, Armillaria spp. and germination bacteria for free, but also invited Gastrodia experts to carry out technical training on Gastrodia cultivation in the village, which really provided technical assistance to the people to promote local economic development.

Meanwhile, as an influential enterprise in Zhongshan, under the attention of the Shiqi District Government, the Company has developed rapidly. During the development, we also remember to assume social responsibility, and respond to the national call to actively participate in targeted poverty alleviation activities. Under government-enterprise cooperation, in order to help Yanjin County, Zhaotong City, Yunnan Province to win the fight against poverty, and help the poor in Yanjin County to get rid of poverty, we donated RMB10,000 to the Red Cross Society of Shiqi District to support the poverty alleviation cooperation between the East and the West, and assist Yanjin County, Tongzhao City, Yunnan Province.

Environmental, Social and Governance Report

8.3 Dedicated to support community development

Caojinghua Charity Found

In the two years since the establishment of Caojinghua Charity Fund, the foundation has strictly complied with the laws and regulations of the Charity Law of the People's Republic of China and the Foundation Management Regulations of People's Republic of China. It also formulated and implemented the Management Regulations of Caojinghua Love Fund, rigorously reviewed and implemented the application approval process and related procedures to ensure that each love fund can help those in need. Caojinghua Charity Fund donated a total amount of RMB209 thousand in 2019, and the number of beneficiaries reached 34, involving six chain pharmacies. At the China Pharmacy Management Summit "Love Warm China 2019 Pharmaceutical Industry Public Welfare Series List" unveiling event, Zhongzhi Pharmaceutical won the Charity Enterprise Award for its "Caojinghua Charity Fund" benefiting 3 million pharmacies.

Philanthropic activities

As a highly socially responsible company, Zhongzhi Pharmaceutical has the responsibility to promote community health. Meanwhile, Zhongzhi Pharmaceutical adheres to the spirit of "taking from society and giving back to society", and always cares about the people in the community. We encourage employees to actively participate in various social public welfare activities. Participation in public welfare activities has injected the cultural ideas and humanistic spirit of charity into the organizational culture of enterprise. During the charity event in 2019, we donated a total of RMB62,687 to give back to the society and help the poor.

8.4 Working together to combat the epidemic

In early 2020, an outbreak caused by a novel coronavirus-infected pneumonia impacted the nationals all over the country. In the face of the epidemic, it is imperative that in this anti-epidemic action, Zhongzhi Pharmaceutical actively responded to the national call to fight the epidemic, and has been silently adhering to its own social responsibility. Through strict supervision of drug prices, donation of anti-epidemic materials, and care for employees and other activities, we strive to contribute to the disease control needs of the broad masses.

Environmental, Social and Governance Report

Emergency supply to ensure delivery

In order to protect the supply of medicines and supplies related to the epidemic prevention of the citizens, the Company's chain pharmacy set up a special emergency team to ensure adequate supply of more than 300 stores. The emergency team unified supply and allocation of supplies, expedited delivery, and ensured that all stores had sufficient product supply. At the same time, we issued a notice at the first time, arranging to strengthen the learning of relevant epidemic prevention knowledge to reduce customer anxiety and tension.

At the beginning of the outbreak, we found that the supply of masks, medicines and disinfection supplies in the stores of the Company's chain pharmacy was in short supply. The Company's chain pharmacy strictly abides by the relevant instructions of the government market supervision and management department, monitors the prices of retail products in pharmacies, and strictly prohibits bad practices such as price increases, and effectively protects the rights and interests of consumers at the critical moment of the epidemic.

Donate supplies to overcome difficulties

Zhongzhi Pharmaceutical is concerned about the safety of frontline staff of the epidemic, actively responds to the call of relevant medical institutions, and quickly organizes the deployment of material support. The Group has donated materials worth RMB6.8 million to the Red Cross Society of Zhongshan in three consecutive times. Among them, the first batch was donated to designated treatment hospital in Zhongshan of medical masks, disinfectants, anti-flu traditional Chinese medicine Shiqi exogenous granules and other materials worth RMB1.07 million; the second batch was Astragalus decoction pieces and Houttuynia cordata decoction pieces worth RMB5 million donated to medical staff of Wuhan Medical Institution; and the third batch was Shiqi exogenous particles and disinfectant worth RMB730,000 donated to the police and police assistant staff of Zhongshan City.

Caring for employees with full protect

Zhongzhi Pharmaceuticals organized event at the grassroots level to condolences to the employees of the first-line Zhongzhi Chain Pharmacies. The event was initiated by Caojinghua Charity Fund. Enterprise representatives, including the chairman of the Group, representatives of the foundation and volunteers were divided into 20 groups to visit stores in Zhongshan districts to comfort the staff of Zhongzhi Chain Pharmacies. Materials such as masks, hand sanitizers, nutritional products, and solatiums provide warmth and boost confidence for the epidemic.

Environmental, Social and Governance Report

9. APPENDIX I – LIST OF MAJOR ESG POLICIES AND REGULATIONS

This form is a review of the major ESG policies and the relevant laws and regulations that have a significant impact on Zhongzhi Pharmaceutical mentioned in the report, and is based on the 11 ESG issues listed in the Environmental, Social and Governance Reporting Guide.

ESG Issue	Policies	Laws and regulations
A1. Emissions	• Environmental Protection Management System of Zhongzhi Pharmaceutical Company • Exhaust Emission Management System • Wastewater Discharge Management System • Solid Waste Management Measures	• Environmental Protection Law of the People's Republic of China • Environmental Protection Tax Law of the People's Republic of China • Water Pollution Prevention Law of the People's Republic of China • Air Pollution Prevention and Control Law of the People's Republic of China • Law of People's Republic of China on the Prevention and Treatment of Solid Waste Pollution to Environment • Administrative Measures on Environmental Protection for Pharmaceutical Industry
A2. Use of Resources	• Workplace Safety Management System of the Zhongzhi Pharmaceutical Group • Power Facility Management Standard	—
A3. The Environment and Natural Resources	• Environmental Protection Management System of Zhongzhi Pharmaceutical Company • Environmental Protection Emergency Plan	• Environmental Protection Law of the People's Republic of China
B1. Employment	• Human Resources Management System • Human Resource Management System • Management Rules on the Confirmation of Probation for New Employees of the Group (2018 Trial) • Management Rules on Employee Rehiring (2018 Trial) • Attendance Management System • Remuneration Structure Management Methods	• Labor Law of the People's Republic of China • Employment Contract Law of the People's Republic of China • Social Insurance Law of the People's Republic of China

Environmental, Social and Governance Report

ESG Issue	Policies	Laws and regulations
B2. Health and Safety	• Management Rules of Occupational Health • Safety Standard Document • Management System of Corporate Potential Occupational Hazards • High Voltage Grid Commitment	• Production Safety Law of the People's Republic of China • Law on the Prevention and Control of Occupational Diseases of the People's Republic of China • Social Insurance Law of the People's Republic of China
B3.Development and Training	• Management System on Training • Training Structure and Plan • 2018 Training Program • Corporate Culture Training System of the Group Companies • Skill Rating Methods for Production Staff (2018)	—
B4. Labour Standards	• Human Resources Management System • Human Resource Management System • Attendance Management System	• Labor Law of the People's Republic of China • Employment Contract Law of the People's Republic of China • Provisions on the Prohibition of Using Child Labour
B5. Supply Chain	• Supplier Management Standard	• Pharmaceutical Operation Quality Management Standard • GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province

Environmental, Social and Governance Report

ESG Issue	Policies	Laws and regulations
B6. Product Responsibility	• Quality Standard for the Ecological Environment in Standardized Chinese Herb Plantation Bases • Selection and Assessment Criteria for Standardized Chinese Herb Plantation Bases • Management System of Production and Operation for Standardized Chinese Herb Plantation Base • Technical Guidelines for the Development of Ecological and Traceable Bases of Chinese Decoction Pieces • Assessment Criteria for the Chinese Herb Ecological and Traceable Bases of Zhongzhi Pharmaceutical Group • Herbs Numbering Management System • Administrative Measures for Drug Registration • Administrative Measures for Supervision on Drug Production • Quality Control Rules for Drug Production • Pharmaceutical Operation Quality Management Standard • Management Standard for Medicine Instruction and Label Filing • Management of Pharmaceutical Inspection and Acceptance • Management Standards on Recall, Rework, Reprocessing and Re-packaging • Administrative Measures for Drug Recalls • Emergency Plan for Material Quality and Safety Incidents of Products	• Medicine Management Law of the People's Republic of China • Pharmacopoeia of the People's Republic of China • Law on Protection of Consumer Interests • Patent Law of the People's Republic of China • Law on Intellectual Property Rights of the People's Republic of China

Environmental, Social and Governance Report

ESG Issue	Policies	Laws and regulations
	• Management System for Sub-standard Product Disposal • Operating Procedures for Quality Control Standard of Returned Products • Management of Drug Inspection and Acceptance • Management of Consumer Complaints • Management and Measures of Consumer Privacy Protection • Complaint Management Standard • Standard Operating Procedures for Complaint Handling • Management and Measures of Consumer Privacy Protection • Requirements on Relevant Works on Confidentiality of Corporate Technologies	
B7. Anti-corruption	• Directors and Management's Code of Ethics • Staff Code of Ethics • Management Procedures of Staff whistleblowing and Complaints • Zhongzhi Pharmaceutical High-voltage Grid Commitment Letter • Integrity Policies	• Anti-unfair Competition Law of the People's Republic of China • Provincial Requirements for Prohibiting Commercial Bribery
B8. Community investment	• Caojinghua Charity Fund Management Provisions	• Charity Law of the People's Republic of China • Foundation Management Regulations of People's Republic of China

Environmental, Social and Governance Report

10. APPENDIX II – LIST OF ESG DATA

ESG Indexes		Unit	Data of 2019	Data of 2018	Data of 2017
A. Environmental					
A1. Emissions					
A1.1	**The types of emissions and emissions data**				
	NO_X	Tonne	3.30	2.94	2.19
	SO_2	Tonne	2.94	0.15	0.59
	PM	Tonne	0.13	0.10	0.47
A1.2	**Greenhouse gas emissions and intensity**				
	Scope 1: Greenhouse gas emissions due to the usage of fossil fuels	tCO_2e	2,934.07	2,654.27	256.99
	Scope 2: Greenhouse gas emissions caused by the use of electricity and steam	tCO_2e	13,127.29	10,558.31	8,196.50
	Total greenhouse gas emissions	tCO_2e	16,061.36	13,212.58	8,453.49
	Greenhouse gas emission intensity	tCO_2e/revenue in million	11.97	11.57	8.95
A1.3	**Hazardous waste produced**				
	Waste liquids from laboratory	Tonne	4.79	4.12	3.55
	Waste medicines (WH03)	Tonne	1.10	1.19	0.30
	Other hazardous waste	Tonne	1.20	0.29	0.80
	Total amount of hazardous waste discharged	Tonne	7.09	5.60	4.64
	Intensity of hazardous waste	K.g./revenue in million	5.29	4.90	4.91
A1.4	**Non-hazardous waste produced**				
	Office and domestic wastes	Tonne	176.01	221.29	213.05
	Discarded packaging materials	Tonne	53.05	46.50	34.66
	Wastes containing Herb residues	Tonne	776.60	744.80	902.15
	Other general industrial wastes	Tonne	1.35	1.04	2.00
	Total quantity of non-hazardous wastes	Tonne	1,007.00	1,013.63	1,151.86
	Non-hazardous waste intensity	Tonne/revenue in million	0.75	0.89	1.22

Environmental, Social and Governance Report

ESG Indexes		Unit	Data of 2019	Data of 2018	Data of 2017
A2. Use of Resources					
A2.1 Total consumption of energy and energy intensity					
	Gasoline	Liter	86,310	66,013	57,521
	Diesel	Liter	30,796	29,606	25,606
	Office power consumption	KWh	2,611,230	1,645,702	1,211,585
	Power consumption in production	KWh	12,288,734	10,330,575	8,627,537
	Outlet power consumption	KWh	4,984,655	4,755,546	3,001,996
	Power consumption in total	KWh	19,884,620	16,731,842	12,841,118
	Steam	Tonne	2,753	3,440	1,268
	Natural gas	m^3	1,187,850	1,091,276	499,779
	Biomass particle	Tonne	0	0	1,520.23
	Total energy consumption	GWh	35.31	31.49	20.33
	Intensity of total energy consumption	MWh/revenue in million	26.30	27.57	21.52
A2.2 Water consumption and intensity					
	Office and domestic water consumption	Tonne	32,571	33,852	29,276
	Water consumption for production	Tonne	181,539	176,016	174,862
	Total water consumption	Tonne	214,110	219,827	204,138
	Intensity of water consumption in total	Tonne/revenue in million	159.52	192.47	216.10
A2.5 Usage amount of raw and auxiliary materials and packaging materials					
	Packaging materials: Metal	Tonne	1,474.24	1,079.19	845.31
	Packaging materials: Plastics	Tonne	597.44	504.23	745.58
	Packaging materials: Paper materials	Tonne	1,159.92	1,137.4	1,112.3
	Packaging materials: Composite membrane	Tonne	448.70	372.54	352.47
	Packaging materials in total	Tonne	3,680.31	3,093.38	3,055.66
	Density of packaging material consumption	Tonne/revenue in million	2.74	2.71	3.23
A 3.1 R aw herbal medicinal materials		Tonne	2,227	1,810	2,306
B. Social					
B1. Employment					
B1.1	Total workforce by gender, employment type, age group and geographical region				
	Total number of employees	Persons	3,243	3,398	3,970
Gender	Male	Persons	1,219	1,186	1,508
	Female	Persons	2,024	2,212	2,462
Age	29 and below	Persons	1,419	1,734	1,885
	30-50	Persons	2,692	1,565	1,942
	Above 50	Persons	132	99	143

Environmental, Social and Governance Report

ESG Indexes		Unit	Data of 2019	Data of 2018	Data of 2017
B2. Health and Safety					
B2.1 Number of work-related fatalities					
	Number of work-related fatalities	Persons	0	0	0
	Number of work injury	Incidence	15	21	15
B2.2 Lost days due to work injury					
	Days of common work injury	Day	596	592	372
B3. Development and Training					
B3.1 The percentage of employees trained					
	Total number of employees trained	Number of people	157,626	90,437	43,051
B3.2 Training hours of employees					
	Average training hours	Hour	54.11	73.81	30.94
B5. Supplier Management					
B5.1 Number of Suppliers					
Region	South China	Number	400	509	507
	Non-South China	Number	328	221	104
B6. Product Responsibility					
B6.2 Number of products and service related complaints received					
	Subject to recall due to safety reasons	Incidence	0	0	1
	Subject to recall due to safety reasons	Batch	0	0	20
	Other complaints related to products and service	Incidence	59	69	52
B7. Anti-corruption					
B7.1 Number of legal cases regarding corrupt practices			0	0	0
	Initiated or concluded legal cases regarding corrupt practices	Incidence	0	0	0
B8. Community Investment					
B8.2 Resources contributed to the focus area					
	Monetary donation	RMB10,000	31.95	21.59	29.57
	Value of goods donated	RMB10,000	24.05	27.70	7.9
	Number of volunteers	Number of people	652	235	278
	Volunteer hours	Hour	2,676	900	752

11. APPENDIX III – ESG INDEX OF THE STOCK EXCHANGE

Environmental, Social and Governance Areas, General Disclosures and KPIs		Corresponding section
Environmental		
A1: Emissions	General Disclosure	3 Green operation APPENDIX II – LIST OF ESG DATA
	A1.1 The types of emissions and respective emissions data	3 Green operation APPENDIX II – LIST OF ESG DATA
	A1.2 Greenhouse gas emissions in total and intensity	3 Green operation APPENDIX II – LIST OF ESG DATA
	A1.3 Total hazardous waste produced and intensity	3 Green operation APPENDIX II – LIST OF ESG DATA
	A1.4 Total non-hazardous waste produced and intensity	3 Green operation APPENDIX II – LIST OF ESG DATA
	A1.5 Description of measures to mitigate emissions and results achieved	3 Green operation
	A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	3 Green operation
A2: Use of Resources	General Disclosure	3 Green operation
	A2.1 Energy consumption in total and intensity	3 Green operation APPENDIX II – LIST OF ESG DATA
	A2.2 \Water consumption in total and intensity	3 Green operation APPENDIX II – LIST OF ESG DATA
	A2.3 Description of energy use efficiency initiatives and results achieved	3 Green operation
	A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	3 Green operation
	A2.5 Total packaging material used for finished products and with reference to per unit produced	3 Green operation APPENDIX II – LIST OF ESG DATA
A3: Environment and Natural Resources	General Disclosure	3 Green operation
	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	3 Green operation
Social		
B1: Employment	General Disclosure	4 Employment
	B1.1 Total workforce by gender, employment type, age group and geographical region	4 Employment APPENDIX II – LIST OF ESG DATA
B2: Health and Safety	General Disclosure	4 Employment
	B2.1 Number and rate of work-related fatalities	4 Employment APPENDIX II – LIST OF ESG DATA
	B2.2 Lost days due to work injury	4 Employment
	B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored	4 Employment

Environmental, Social and Governance Report

Environmental, Social and Governance Areas, General Disclosures and KPIs			Corresponding section
B3: Development and Training	General Disclosure		4 Employment
	The average training hours completed per employee by gender and employee category		4 Employment APPENDIX II – LIST OF ESG DATA
B4: Labour Standards	General Disclosure		4 Employment
	B4.1	Description of measures to review employment practices to avoid child and forced labour	4 Employment
	B4.2	Description of steps taken to eliminate such practices when discovered	4 Employment
B5: Supply Chain Management	General Disclosure		5 Supply Chain Management
	B5.1	Number of suppliers by geographical region	5 Supply Chain Management APPENDIX II – LIST OF ESG DATA
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	5 Supply Chain Management
B6: Product Responsibility	General Disclosure		6 Product Liability
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	6 Product Liability APPENDIX II – LIST OF ESG DATA
	B6.2	Number of products and service related complaints received and how they are dealt with	6 Product Liability APPENDIX II – LIST OF ESG DATA
	B6.3	Description of practices relating to observing and protecting intellectual property rights	6 Product Liability APPENDIX II – LIST OF ESG DATA
	B6.4	Description of quality assurance process and recall procedures	6 Product Liability APPENDIX II – LIST OF ESG DATA
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	6 Product Liability APPENDIX II – LIST OF ESG DATA
B7: Anti-corruption	General Disclosure		7 Integrity
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	7 Integrity APPENDIX II – LIST OF ESG DATA
	B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	7 Integrity
B8: Community Investment	General Disclosure		8 Community Support
	B8.1	Focus areas of contribution	8 Community Support
	B8.2	Resources contributed to the focus area	8 Community Support APPENDIX II – LIST OF ESG DATA

Report of Directors

The Directors are pleased to present to the Shareholders the fifth annual report and the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong province, the PRC. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Financial Summary, Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

The Group complies with the requirements under the Hong Kong Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the year.

KEY RISK FACTORS

The following lists out the key risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognises the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year.

The Group places great emphasis on working relationships with suppliers to meet our customers' needs in an effective and efficient manner. Our departments work closely with our suppliers to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

Report of Directors

Our major suppliers are generally providing materials for pharmaceutical production and had business relationship with the Group for over six years on average, which spreading over various regions, such as Northern China, Central China and Southern China.

The payment terms granted by suppliers were generally from telegraphic transfers before shipment to 120 days. The payables were usually settled within the credit period. Up to the date of this report, 85% of the trade payables to the major suppliers has been settled.

The Group is principally engaged in the pharmaceutical manufacturing in the PRC and the quality of the procured materials from the suppliers is important. In order to alleviate quality risks for pharmaceuticals produced, the Group has formulated the "Management Regulations on Suppliers" based on the "Pharmaceutical Operation Quality Management Standard" and the "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province", which regulates and makes specific requirements in respect of the supplier assessment methods, audit methods and types as well as the removal and replacement procedures for unqualified suppliers, and ensured the legality and safety of the operation of the Group.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers are wholesale customers and the trading terms with them are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers, payment in advance is normally required. The years of business relationship with the Group ranged from an average of four to six years. Up to the date of this report, 87% of the trade receivables of the major customers has been settled.

In order to alleviate the credit risk, the Group trades only with recognized and creditworthy third parties and 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.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any major product dispute with our customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 95 to 175.

The Board recommend the payment of a final dividend of HK2.9 cents per ordinary share (2018: HK2.0 cent) and a special dividend of HK1.45 cents per ordinary share (2018: HK1.6 cents) for the year ended 31 December 2019 to shareholders whose names appeared on the register of members on Wednesday, 27 May 2020, which will be subject to the approval of the Company's Shareholders at the forthcoming AGM. Details are set out in note 12 to the consolidated financial statements. The final dividend and special dividend will be payable on or around Wednesday, 10 June 2020.

Report of Directors

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 12 May 2020 to Monday, 18 May 2020, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrar Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Monday, 11 May 2020.

To determine the entitlement of the proposed final dividend and special dividend for the year ended 31 December 2019, the register of members of the Company will be closed from Monday, 25 May 2020 to Wednesday, 27 May 2020, both days inclusive, during which period no transfers of shares shall be effected. In order to be eligible for receiving the final dividend and special dividend, all completed transfers forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrar Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Friday, 22 May 2020.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the note 41 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Report of Directors

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserve available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB195.6 million, of which RMB32.7 million has been proposed as final dividend and special dividend for the year after the Reporting Period. The amount of RMB195.6 million includes the Company's share premium and retained profits at 31 December 2019, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

CHARITABLE DONATIONS

The Group donated RMB0.2 million during the Reporting Period (2018: RMB0.2 million).

MANAGEMENT CONTRACTS

Save as disclosed in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

During the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 9.1% and 30.4% (2018: 10.1% and 31.6%) of the total purchases of the year, respectively.

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

Report of Directors

DIRECTORS

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

Executive Directors
Mr. Lai Zhi Tian *(Chairman)*
Mr. Lai Ying Feng
Mr. Cao Xiao Jun
Mr. Cheng Jin Le

Non-executive Directors
Ms. Jiang Li Xia
Mr. Yang Ai Xing

Independent non-executive Directors
Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

In accordance with article 108(a) of the Articles, Mr. Cao Xiao Jun, Mr. Wong Kam Wah and Mr. Zhou Dai Han retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he or she retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

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 13 to 17 of this annual report.

Report of Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and the non-executive Director has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter (except for Mr. Cheng Jin Le whose contract commenced on 19 September 2016, Mr. Lai Ying Feng whose contract commenced on 14 May 2018 and Mr. Yang Ai Xing whose contract commenced on 14 May 2018) and each of the independent non-executive Directors has enter into a service agreement with the Company for an initial term of three years commencing on 13 July 2018. All the service agreements may be terminated by either party by giving to the other party not less than three months' prior notice in writing.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment or compensation, other than statutory compensation.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

Report of Directors

(i) Long position in the ordinary shares of the Company

Name of Director	Beneficial interest Number of ordinary Shares	Interest in a controlled corporation Number of ordinary shares	Family interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of the issued share capital of the Company
Mr. Lai Zhi Tian ("Mr. Lai") (Note 1)	1,176,000	471,105,000 (Note 2)	42,240,000 (Note 3)	514,521,000	61.25%
Ms. Jiang Li Xia ("Mrs. Lai")	—	42,240,000 (Note 3)	472,281,000 (Note 2)	514,521,000	61.25%
Mr. Lai Ying Feng	5,990,000	—	—	5,990,000	0.71%

Notes:

1. Mr. Lai is personally interested in 21.518% shareholding interest in Advance Keypath Global Investments Limited which is interested in 7.14% shareholding in the Company.

2. Crystal Talent Investment Group Limited ("Crystal Talent"), which holds 471,105,000 ordinary shares of the Company, is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.

3. Cheer Lik Development Limited ("Cheer Lik"), which holds 42,240,000 ordinary shares of the Company, is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai. Accordingly, each of Mrs. Lai and Mr. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.

Report of Directors

(ii) Long position in Crystal Talent, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mr. Lai	Beneficial owner	100%
Mrs. Lai	Family Interest (Note)	100%

Note: Crystal Talent is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai under the SFO.

(iii) Long position in Cheer Lik, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mrs. Lai	Beneficial owner	100%
Mr. Lai	Family Interest (Note)	100%

Note: Cheer Lik is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai under the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at the date of this report, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following persons (other than the interests of the Directors of the Company as disclosed above) had interests or short positions in the ordinary shares of the Company or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Report of Directors

Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	56.08%
Cheer Lik (Note 2)	42,240,000	42,240,000	5.03%
Advance Keypath Global Investment Limited (Note 3)	60,000,000	60,000,000	7.14%
Novich Positioning Investment Limited Partnership (Note 4)	51,058,000	51,058,000	6.07%

Notes:

1. These 471,105,000 shares are held by Crystal Talent, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Lai.

2. These 42,240,000 shares are held by Cheer Lik, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mrs. Lai.

3. These 60,000,000 shares are held by Advance Keypath Global Investment Limited, a company incorporated in the British Virgin Islands with limited liability.

4. These 51,058,000 shares are held by Novich Positioning Investment Limited Partnership, a company incorporated in the Cayman Islands.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2019 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.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Saved as disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and in the section "Share Option Scheme" below, 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 Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

Report of Directors

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Save as disclosed in the section headed "Connected Transactions" of this report, none of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the Reporting Period and up to the date of this report.

Each of Mr. Lai, Mrs. Lai, Crystal Talent and Cheer Lik (together the "Controlling Shareholders"), had entered into a non-competition deed dated 8 June 2015 (the "Non-competition Deed") in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/her/its associates not to (other than through the Group or in respect of each covenanter (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognized stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by the Group from time to time, except where the Company's approval is obtained.

In order to ensure the Controlling Shareholders have complied with the Deed of Non-competition, each of the Controlling Shareholders has provided to the Company a written confirmation (i) in respect of his/her/its compliance with the Non-competition Deed for the Reporting Period; (ii) no personal interests were ever declared by any Controlling Shareholders who are also Directors at the Directors' meetings; and (iii) stating that they have not entered into any business which may be in competition with the business carried on by the Group from time to time. As there was no change in terms of the undertaking since the Company's listing on the Stock Exchange, the independent non-executive Directors of the Company are of the view that the Controlling Shareholders have complied with the Non-competition Deed and no matters are required to bring to the attention of the public.

EQUITY-LINKED AGREEMENT

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are set out below:

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 8 June 2015 (the "Share Option Scheme"), which became effective on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that eligible participants (as defined in the Prospectus) have made or may make to the Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the share of the Company in issue at the Listing Date (i.e. 80,000,000 shares) unless approved by the shareholders of the Company.

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting of the Company.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of:

(i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;

(ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of a Share on the offer date.

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date).

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from date of adoption. The remaining life of the Share Option Scheme is 6 years. There is no share option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2019.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 80,000,000, representing approximately 9.52% of the issued shares of the Company.

SHARE AWARD PLAN

A share award plan was adopted and became effective on 8 January 2016 ("the Share Award Plan").

The Share Award Plan is a share incentive scheme and is established to recognize the contributions by certain Selected Persons (as defined in the Company's announcements on 8 January 2016 and 7 December 2018) and to attract suitable individuals with experience and ability for further development and expansion of the Group.

The Share Award Plan shall be subject to the Board or the trustee of the Share Award Plan in accordance with its terms. The Board or the Remuneration Committee may select any eligible person for participation in the Share Award Plan and determine the number of awarded Shares to be awarded to the selected person(s), subject to any condition(s).

Subject to the terms and conditions of the Share Award Plan, the maximum number of shares which may be awarded by the Board throughout the duration of the Share Award Plan shall not, in aggregate, exceed 1% of the issued share capital of the Company as at 8 January 2016 (i.e. 8,000,000 shares). On 25 March 2019, the Board has resolved to extend the limit of the Share Award Plan to the effect that the shares under the Share Award Plan shall increase from 8,000,000 shares to 20,000,000 shares.

Report of Directors

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Award Plan shall be valid and effective for a period of ten years from the date of adoption.

In 2016, the Company purchased 8,000,000 of its ordinary shares through the trustee of the Share Award Plan at prices ranging from HK$2.15 to HK$2.40 per share at a total consideration of approximately HK$18,313,000 (equivalent to approximately RMB15,651,000).

The Company granted 149,000 shares to certain employees on 20 June 2016 and the vesting date of the shares is 20 June 2016. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$2.37) on the day of the grant, amounting to HK$353,000 (equivalent to approximately RMB303,000).

The Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000).

During the year ended 31 December 2019, the Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares were 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.45) on the day of the grant, amounting to HK$184,000 (equivalent to approximately RMB161,000).

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the "Eligible Persons") on 25 March 2019, which was subject to satisfaction of certain performance target for year 2019. As at 31 December 2019, according to the achievement status of performance of the Eligible Persons, 1,200,000 shares shall be vested while the remaining was forfeited due to failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.439) on the day of the grant, amounting to HK$1,727,000 (equivalent to approximately RMB1,477,000).

At the date of this report, 6,651,500 shares of the Company are held by the trustee and have yet to be rewarded.

CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

We have entered into a number of continuing agreements and arrangements ("Contractual Arrangements") with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of the continuing connected transactions for our Group.

Contractual Arrangements

On 31 August 2014, our Group, Zhongzhi Herb Pieces and the holders of its equity interests ("Registered Shareholders") entered into the Contractual Arrangements, which consist of: (i) an operation services agreement; (ii) a call option agreement; (iii) an equity pledge agreement; (iv) a power of attorney; and (v) an exclusive intellectual property purchase agreement. For details of these contracts, please refer to the "Contractual Arrangements – Details of the Contractual Arrangements" section in the Prospectus.

Report of Directors

The Contractual Arrangements that were in place as at 31 December 2019 are as follows:

1. Operation services agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the operation services agreement. Pursuant to the operation services agreement, Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, inter alia, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. The service fee payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical for the year ended 31 December 2019 is approximately RMB16.5 million.

The amount of fees payable by Zhongzhi Herb Pieces shall be calculated in accordance with the PRC accounting principles, which shall be the revenue of Zhongzhi Herb Pieces (which included sales of RMB145.3 million to Zhongzhi Pharmaceutical) after deducting, inter alia, all the expenses (which included rental fee of RMB3.4 million and royalty fee of RMB9.4 million to Zhongzhi Pharmaceutical) and reserve fund. All the above transactions have been eliminated upon consolidation of the financial results of Zhongzhi Herb Pieces into the Group's consolidated financial statements.

2. Call Option Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the call option agreement, pursuant to which the Registered Shareholders have granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their entire equity interests in Zhongzhi Herb Pieces according to the terms contained therein.

3. Equity Pledge Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the equity pledge agreement, pursuant to which the Registered Shareholders have pledged their entire equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations by Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the call option agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.

4. Power of Attorney

On 31 August 2014, the Registered Shareholders executed the power of attorney, pursuant to which, among others, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s). The said shareholders' rights include but not limited to the rights to exercise voting rights in shareholders' meeting, to sign minutes of the shareholders' meetings, to file documents with the relevant government authorities, and to appoint directors and supervisors.

5. Exclusive Intellectual Property Purchase Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Exclusive Intellectual Property Purchase Agreement, pursuant to which Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations.

Report of Directors

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced between our Group, Zhongzhi Herb Pieces and the Registered Shareholders during the year ended 31 December 2019.

For the year ended 31 December 2019, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Risk relating to the Contractual Arrangements

The following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 37 to 41 of the Prospectus.

- The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.
- Uncertainties of the interpretation under the relevant PRC laws, rules, regulations or explanatory notes may result in our Contractual Arrangements becoming invalid and illegal.
- Certain terms of the Contractual Arrangements may not be enforceable under the PRC laws.
- Our Group relies on the Contractual Arrangements for the production of decoction pieces in PRC, which may not be as effective in providing operational control as direct ownership.
- The Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- Our exercise of the option to acquire equity interests of Zhongzhi Herb Pieces may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

Actions taken to mitigate the risks

In light of the above risks associated with the Contractual Arrangements, the Group has adopted relevant procedures and internal control measures to ensure the effective operation of the Group and the implementation of the Contractual Arrangements, including (i) discuss and make all necessary modification to the Contractual Arrangements in order to maintain the economic interests; (ii) regular report by relevant divisions of the Group to the senior management of the Company in relation to the compliance of the Contractual Arrangements; (iii) regular report by the senior management of the Group to the Board any non-compliance issues; (iv) retain legal adviser and/or other professional to assist the Group to deal with specific issues arising from the Contractual Arrangements, if required; and (v) annual review by the independent non-executive Directors the compliance of the Contractual Arrangements.

Conflicts of Interests

We have implemented measures to protect against the potential conflicts of interest between our Group and the Registered Shareholders. Pursuant to the operation services agreement, the Registered Shareholders have undertaken that they will cause Zhongzhi Herb Pieces to strictly adopt and follow the advices and decisions made by Zhongzhi Pharmaceutical and will not raise objection to the same. If there is any potential conflict of interests between the Registered Shareholders and Zhongzhi Pharmaceutical, especially when the Registered Shareholders are also the directors or senior management of Zhongzhi Pharmaceutical, the Registered Shareholders shall protect, and shall not harm the interests of Zhongzhi Pharmaceutical. Under the call option agreement, the Registered Shareholders granted Zhongzhi Pharmaceutical an irrevocable and exclusive option to purchase all or any part of the equity interests in Zhongzhi Herb Pieces at the lowest price and to the extent permitted by the applicable PRC laws and regulations. Furthermore, under the power of attorney executed by the Registered Shareholders, Zhongzhi Pharmaceutical was irrevocably appointed as the attorney of the Registered Shareholders to exercise the shareholders' rights in Zhongzhi Herb Pieces on behalf of the Registered Shareholders. As a result, we have minimised the Registered Shareholders' influence on the business operations of Zhongzhi Herb Pieces.

Reasons for the Contractual Arrangements

The principal business of Zhongzhi Herb Pieces is the production of decoction pieces, of which the processing techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the relevant PRC laws and regulations. We cannot own any equity interest in Zhongzhi Herb Pieces. As a result, the Contractual Arrangements were necessary for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces flow to our Group. Other than the information that were disclosed in the Prospectus, there were no changes to the relevant PRC laws and regulations for the year ended 31 December 2019.

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms, in the ordinary and usual course of our Group's business and are fair and reasonable, and are in the interests of our Group and our Shareholders as a whole.

Waiver from the Stock Exchange and Annual Review

Zhongzhi Herb Pieces is owned as to 89.56% by Mr. Lai and is therefore an associate of Mr. Lai and hence a connected person of our Company pursuant to 14A.07(4) of the Listing Rules. The Group operates its decoction pieces business in the PRC through a series of Contractual Arrangements entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions under the Listing Rules.

The Stock Exchange has agreed to grant a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the certain conditions as disclosed on pages 203 to 205 of the Prospectus.

Report of Directors

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by Zhongzhi Herb Pieces has been substantially retained by Zhongzhi Pharmaceutical, (ii) no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group during the year ended 31 December 2019, and (iii) any new contracts entered into, renewed or reproduced between the Group and Zhongzhi Herb Pieces during the year ended 31 December 2019 are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders of the Company as a whole.

Confirmations from our Company's Independent Auditor

The auditor of our Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into during the year ended 31 December 2019:

1. nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. nothing has come to their attention that causes the auditor to believe that dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

Zhongzhi Herb Pieces

Revenue attributable to Zhongzhi Herb Pieces was approximately RMB150.1 million during the year ended 31 December 2019. As at 31 December 2019, the total asset and net asset attributable to Zhongzhi Herb Pieces was approximately RMB86.7 million and RMB54.9 million respectively.

FUTURE PROSPECT AND DEVELOPMENT

With reference to the Outlook & Strategy section of the Chairman's Statement, the Group will continue to focus on developing the PRC market in 2019 by building our Caojinghua brand, further expanding its distribution network, increasing the number of chain pharmacies in the Guangdong province and increasing production capacities. The Board will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

PUBLIC FLOAT

Based on publicly available information, and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its issued shares as required under the Listing Rules during the Reporting Period up to the date of this report.

Report of Directors

AUDIT COMMITTEE

The Audit Committee comprised of three independent non-executive Directors, namely Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The main duties of the Audit Committee are to examine, review and monitor the financial data and financial reporting procedure of the Company.

The Audit Committee had reviewed the audited annual results of the Group for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the CG Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2019, save for the deviation as disclosed in Corporate Governance Report from pages 18 to 32, which provide further information on the Company's corporate governance practices. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 18 May 2020 to seek Shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorise the Board to fix their remuneration.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 25 March 2020

Independent Auditor's Report

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To the shareholders of Zhongzhi Pharmaceutical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 95 to 175, 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

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 matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
We focused on the recoverability of trade receivables because a high level of management judgement is required in assessing the expected credit losses ("ECLs") for trade receivables. Furthermore, trade receivable balances were significant to the Group as they represented 19.0% of the total assets of Group as at 31 December 2019. The Group applied the simplified approach to calculate the ECLs which is based on lifetime expected credit losses at each reporting date. Specific factors that management considered in the estimation of the ECLs included the type of customers, ageing of the balances, historical default rates, recent historical payment patterns, existence of disputes and forward-looking information. Related disclosures are included in notes 3, 21 and 39 to the consolidated financial statements.	We evaluated the controls of the Group's collection procedures and assessed the Group's policy for determining the ECLs in accordance with the requirements of IFRS 9. We assessed the ECL provision, by checking the correctness of the ageing of receivables, assessing recent repayment history of debtors and the related forward-looking information used to determine the expected credit losses.
Provision for obsolete inventories	
We focused on the provision for obsolete inventories because the inventory balance was material to the consolidated financial statements as it represented 15.5% of the total assets of the Group as at 31 December 2019 and significant management judgement is required in assessing whether there would be obsolete inventories at the year end. The specific factors considered by management in the estimation of the provision included types of inventories, conditions of the inventories, expiration dates of medicines, and the forecasted inventory usage and sales. Related disclosures are included in notes 3 and 20 to the consolidated financial statements.	We obtained an understanding of management's process about how to identify the obsolete inventories and calculate the provision. We evaluated management's assumptions used to calculate the provision amount for obsolete inventories by checking the ageing of inventories and the subsequent usage and sales of inventories on a sampling basis. We tested samples of inventory items held by the Group to assess their cost and net realisable values. We also attended and observed management's inventory counts at all material inventory locations and in certain self-owned chain pharmacies of the Group.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

In preparing the consolidated financial statements, the directors 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.

Independent Auditor's Report

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.

Independent Auditor's Report

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

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 M.L. Chau.

Ernst & Young
Certified Public Accountants

Hong Kong
25 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**1,342,182**	1,142,150
Cost of sales		**(507,493)**	(433,878)
Gross profit		**834,689**	708,272
Other income and gains	5	**23,206**	24,208
Selling and distribution expenses		**(569,685)**	(492,781)
Administrative expenses		**(78,068)**	(77,808)
Other expenses	6	**(50,194)**	(59,829)
Finance costs	7	**(4,007)**	(239)
PROFIT BEFORE TAX	8	**155,941**	101,823
Income tax expense	11	**(41,247)**	(16,754)
PROFIT FOR THE YEAR		**114,694**	85,069
Attributable to owners of the parent		**114,694**	85,069
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
— For profit for the year		**RMB0.14**	RMB0.10
Diluted			
— For profit for the year		**RMB0.14**	RMB0.10

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**114,694**	85,069
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,282**	2,787
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**115,976**	87,856
Attributable to owners of the parent	**115,976**	87,856

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**279,361**	256,464
Right-of-use assets	15(b)	**109,537**	—
Prepayments for property, plant and equipment		**1,593**	813
Prepaid land lease payments	15(a)	**—**	12,956
Goodwill	16	**1,628**	1,628
Other intangible assets	17	**18,559**	8,877
Investment in a joint venture	18	**417**	421
Equity investments at fair value through profit or loss	19	**10,396**	11,724
Deferred tax assets	28	**13,377**	11,199
Other non-current assets		**7,112**	10,772
Total non-current assets		**441,980**	314,854
CURRENT ASSETS			
Prepaid land lease payments	15(a)	**—**	470
Inventories	20	**199,039**	178,992
Trade and notes receivables	21	**242,764**	162,033
Prepayments, deposits and other receivables	22	**16,423**	22,439
Cash and bank balances	23	**380,333**	332,698
Total current assets		**838,559**	696,632
CURRENT LIABILITIES			
Trade payables	24	**104,300**	85,418
Other payables and accruals	25	**196,389**	161,052
Interest-bearing bank borrowings	26	**31,352**	—
Lease liabilities	15(c)	**32,187**	—
Amounts due to related parties	36(a)	**8,786**	8,786
Deferred income	27	**19,353**	7,531
Amount due to a joint venture		**70**	70
Tax payable		**29,712**	20,642
Total current liabilities		**422,149**	283,499
NET CURRENT ASSETS		**416,410**	413,133
TOTAL ASSETS LESS CURRENT LIABILITIES		**858,390**	727,987

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	27	**17,768**	20,004
Lease liabilities	15(c)	**63,966**	—
Deferred tax liabilities	28	**13,273**	1,391
Total non-current liabilities		**95,007**	21,395
Net assets		**763,383**	706,592
Equity			
Equity attributable to owners of the parent			
Issued capital	29	**6,650**	6,650
Reserves	32	**756,733**	699,942
Total equity		**763,383**	706,592

Lai Zhitian
Director

Cao Xiaojun
Director

Consolidated Statement of Changes in Equity

31 December 2019

	Attributable to owners of the parent									
	Issued capital RMB'000 Note 29	Shares held for the share award plan RMB'000 Note 31	Share premium RMB'000	Merger reserve RMB'000 Note 32(a)	Statutory surplus reserve RMB'000 Note 32(b)	Share-based payment reserve RMB'000 Note 32(c)	Share award reserve RMB'000 Note 31	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018	6,650	(13,181)	363,014	31,200	34,837	5,680	(549)	16,977	232,859	677,487
Profit for the year	—	—	—	—	—	—	—	—	85,069	85,069
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	2,787	—	2,787
Total comprehensive income for the year	—	—	—	—	—	—	—	2,787	85,069	87,856
Transfer from retained profits	—	—	—	—	5,779	—	—	—	(5,779)	—
Final 2017 dividend	—	—	(26,647)(i)	—	—	—	—	—	—	(26,647)
Interim 2018 dividend	—	—	(32,104)(i)	—	—	—	—	—	—	(32,104)
At 31 December 2018	6,650	(13,181)*	304,263*	31,200*	40,616*	5,680*	(549)*	19,764*	312,149*	706,592
At 31 December 2018 and 1 January 2019	**6,650**	**(13,181)**	**304,263**	**31,200**	**40,616**	**5,680**	**(549)**	**19,764**	**312,149**	**706,592**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**114,694**	**114,694**
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,282**	**—**	**1,282**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,282**	**114,694**	**115,976**
Equity-settled share award scheme	**—**	**2,603**	**—**	**—**	**—**	**—**	**(965)**	**—**	**—**	**1,638**
Transfer from retained profits	**—**	**—**	**—**	**—**	**7,363**	**—**	**—**	**—**	**(7,363)**	**—**
Final 2018 dividend	**—**	**—**	**(26,367)(ii)**	**—**	**—**	**—**	**—**	**—**	**—**	**(26,367)**
Interim 2019 dividend	**—**	**—**	**(34,456)(ii)**	**—**	**—**	**—**	**—**	**—**	**—**	**(34,456)**
At 31 December 2019	**6,650**	**(10,578)***	**243,440***	**31,200***	**47,979***	**5,680***	**(1,514)***	**21,046***	**419,480***	**763,383**

* These reserve accounts comprise the consolidated reserves of RMB756,733,000 (2018: RMB699,942,000) in the consolidated statement of financial position.

(i) Dividend income arising from the shares held for the share award plan of RMB217,000 is deducted from the aggregate of the final 2017 dividend and that of RMB261,000 is deducted from the aggregate of the interim 2018 dividend.

(ii) Dividend income arising from the shares held for the share award plan of RMB210,000 is deducted from the aggregate of the final 2018 dividend and that of RMB275,000 is deducted from the aggregate of the interim 2019 dividend.

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	8	**155,941**	101,823
Adjustments for:			
Finance costs	7	**4,007**	239
Bank interest income	5	**(4,728)**	(1,626)
Interest income from financial assets at fair value through profit or loss	5	**(3,472)**	(7,376)
Dividend income from an equity investment at fair value through profit or loss	5	**(76)**	(932)
Fair value (gains)/losses, net:			
Equity investment at fair value through profit or loss	5	**(3,386)**	2,120
Gain on disposal of an equity investment at fair value through profit or loss	5	**(5,376)**	(6,040)
(Gain)/loss on disposal of items of property, plant and equipment, net	5, 6	**(3)**	342
Depreciation	8,14	**29,565**	24,240
Depreciation of right-of-use assets/recognition of prepaid land lease payments	8,15	**32,147**	470
Amortisation of other intangible assets	8,17	**1,822**	1,244
Equity-settled share award expense	8	**1,638**	—
Government grants released	27	**(5,114)**	(8,094)
Impairment losses on trade receivables	6, 8	**1,246**	1,467
Write-down of inventories to net realisable value	6, 8	**451**	4,851
		204,662	112,728
Increase in inventories		**(20,498)**	(45,919)
Increase in trade and notes receivables		**(86,987)**	(41,581)
Decrease in prepayments, deposits and other receivables		**6,152**	19,949
Decrease/(Increase) in non-current assets		**3,660**	(5,985)
Increase in trade payables		**18,882**	13,795
Increase in other payables and accruals		**49,805**	32,439
Increase in deferred income	27	**14,701**	12,687
Cash generated from operations		**190,377**	98,113
Interest paid		**(77)**	(239)
Income tax paid		**(22,473)**	(18,050)
Net cash flows from operating activities		**167,827**	79,824

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(56,388)**	(75,193)
(Increase)/Decrease in prepayments for purchases of property, plant and equipment		**(780)**	2,393
Proceeds from disposal of items of property, plant and equipment		**421**	172
Purchase of other intangible assets		**(8,875)**	(849)
Purchase of right-of-use assets		**(8,867)**	—
Proceeds from disposal of intangible assets		**68**	113
Purchases of an equity investment at fair value through profit or loss		**(210)**	—
Purchases of financial assets at fair value through profit or loss		**(202,925)**	(254,000)
Proceeds upon maturity of financial assets at fair value through profit or loss		**202,925**	254,000
Proceeds from disposal of an equity investment at fair value through profit or loss		**10,300**	13,128
Acquisition of a subsidiary	33	**(560)**	—
Bank interest received	5	**4,728**	1,626
Interest received from financial assets at fair value through profit or loss	5	**3,472**	7,376
Dividend received from an equity investment	5	**76**	932
Decrease in an amount due to a joint venture		**—**	(328)
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		**—**	59,330
Net cash flows (used in)/from investing activities		**(56,615)**	8,700
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		**(34,010)**	—
New bank borrowings		**31,352**	12,230
Repayments of bank borrowings		**(1,379)**	(12,230)
Dividends paid		**(60,822)**	(58,751)
Net cash flows used in financing activities		**(64,859)**	(58,751)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**46,353**	29,773
Cash and cash equivalents at beginning of year		**332,698**	300,128
Effect of foreign exchange rate changes, net		**1,282**	2,797
CASH AND CASH EQUIVALENTS AT END OF YEAR		**380,333**	332,698
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**373,996**	316,534
Non-pledged time deposits	23	**6,337**	16,164
Cash and bank balances as stated in the statement of financial position		**380,333**	332,698

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

1. CORPORATE AND GROUP INFORMATION

Zhongzhi Pharmaceutical Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015 (the "Listing Date").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors, as at the date of this report, the immediate and ultimate holding company of the Company is Crystal Talent Investment Group Limited, a company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2019 are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Windom Talent Company Limited ("Windom Talent")	BVI 16 September 2014, BVI	US$1	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")	Hong Kong 1 August 2014, Hong Kong	HK$1	—	100%	Investment holding
Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") [(a)]	PRC 27 September 1999, Mainland China	RMB220,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited	Hong Kong 14 April 2011, Hong Kong	HK$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies")	PRC 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Zhongzhi Herb Pieces") (b)	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100%	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical")	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Guangdong Caojinghua Cell-broken Herb Co., Ltd. ("Guangdong Caojinghua")	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food
Yulin Yixian Chinese Medicinal Materials Co.,Ltd. ("Yulin Yixian")	PRC 8 August 2016, Mainland China	RMB2,000,000	—	100%	Sale of Chinese herb
Shenzhen Caojinghua Electronic Business Co., Ltd. ("Shenzhen Caojinghua")	PRC 10 January 2017, Mainland China	RMB1,000,000	—	100%	Sale of food
Guangzhou Yunzhi Health Technology Co., Ltd. ("Guangzhou Yunzhi")	PRC 1 December 2017, Mainland China	RMB1,000,000	—	100%	Sale of food
Guangdong Zhongzhida Pharmaceutical Co., Ltd. ("Guangdong Zhongzhida")	PRC 25 October 2019, Mainland China	RMB10,000,000	—	100%	Wholesale of pharmaceutical products
Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Guangdong Yunzhi")	PRC 12 November 2019, Mainland China	RMB50,000,000	—	100%	Manufacture and sale of Chinese decoction pieces

(a) Zhongzhi Pharmaceutical was registered as a wholly-foreign-owned enterprise under PRC law.

(b) Zhongzhi Herb Pieces was ultimately controlled by the Company as a result of a series of contractual arrangements between Zhongzhi Pharmaceutical with Zhongzhi Herb Pieces and the holders of its equity interests ("Registered Shareholders").

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention, except for equity investments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 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 IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-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 IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 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 IAS 17 and related interpretations. Since the Group recognised the right-of-use assets in relation to the operating lease that were under IAS 17 at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments on transition date, there was no impact on the retained earnings.

New definition of a lease

Under IFRS 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 IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Notes to the Consolidated Financial Statements

Year ended 31 December 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 IFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. 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 IFRS 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 (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). 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. 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.

The Group has used the following elective practical expedients when applying IFRS 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

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics, relying on the entity's assessment of whether leases were onerous by applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review, and excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) *(Continued)*

As a lessee — Leases previously classified as operating leases (Continued)

Impact on transition (Continued)

Accordingly, the Group recognised right-of-use assets of RMB118,078,000 and lease liabilities of RMB111,494,000 as at 1 January 2019. Prepaid land lease payments of RMB13,426,000 and accrued rental expenses of RMB6,843,000 were derecognised, resulting in a decrease in prepaid land lease payments and a decrease in other payables and accruals of RMB13,426,000 and RMB6,843,000, respectively, as at 1 January 2019.

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

	RMB'000
Operating lease commitments as at 31 December 2018	139,670
Weighted average incremental borrowing rate as at 1 January 2019	3.9%
Discounted operating lease commitments as at 1 January 2019	111,494
Lease liabilities as at 1 January 2019	111,494

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 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 IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 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 IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 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 IFRSs

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

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

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

Amendments to IFRS 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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

Amendments to IAS 1 and IAS 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 joint ventures

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 investments in 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. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the 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 joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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 (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures its financial instruments 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.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the 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 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) had no impairment loss been recognised for the asset in 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.

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

(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; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;
- (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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost 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.

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 estimated useful lives of property, plant and equipment used are as follows:

Leasehold improvements	1-10 years
Buildings	5-43 years
Machinery	2-20 years
Motor vehicles	4-5 years
Office equipment	2-5 years

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 sale proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents a building under construction, leasehold improvements under construction and machinery received but not completely installed. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Prepaid land lease payments

Prepaid land lease payments are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost represents the consideration paid for the rights to use the land for years ranging from 40 to 43 years. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the year of the rights.

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Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite. Intangible assets with finite lives are 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. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised on the straight-line basis over the following estimated useful life:

Software	10 years

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

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 3 to 5 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

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:

Pharmacies and office premises	3 to 5 years
Leasehold land	40 to 43 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.

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Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(b) Lease liabilities (Continued)

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.

(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 office equipment and laptop computers 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)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 IFRS 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.

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.

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Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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 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 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.

Financial assets at fair value through profit or loss

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

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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.

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.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

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 and notes receivables 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 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

Simplified approach

For trade and notes 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 and notes 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, 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, financial liabilities included in other payables and accruals, an amount due to a joint venture, amounts due to related parties 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 loans and 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 the statement of 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.

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 the statement of profit or loss.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Shares held under the share award scheme

The Group's own equity instruments which are reacquired (shares held under the share award scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. 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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for the current and prior periods 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 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, 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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

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, 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 the 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 the 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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

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 IFRS 15.

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).

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Company operates a share option plan and a share award 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 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension 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 operating in Mainland China are required to contribute a certain percentage 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.

Provision

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.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollars which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the Mainland China, the Company adopts RMB as the presentation currency of the Group. 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. Transactions in foreign currencies are initially recorded at the functional currency rate ruling 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 reporting date. All differences arising on settlement or translation of monetary items are taken to 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 determined. 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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entity. 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 the 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 the subsidiaries established outside the PRC are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the companies established outside the PRC which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the 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:

Contractual arrangements

Zhongzhi Herb Pieces is engaged in the manufacture and sale of Chinese decoction pieces, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

As disclosed in note 1, as part of the historical reorganisation, the equity interests in Zhongzhi Herb Pieces were transferred to the Registered Shareholders and the Group exercises control over Zhongzhi Herb Pieces and enjoys all economic benefits of Zhongzhi Herb Pieces through the Contractual Arrangements.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Contractual arrangements (Continued)

The Group considers that it controls Zhongzhi Herb Pieces, notwithstanding the fact that it does not hold a direct equity interest in Zhongzhi Herb Pieces, as it has power over the financial and operating policies of Zhongzhi Herb Pieces and receives all economic benefits from the business activities of Zhongzhi Herb Pieces through the Contractual Arrangements. Accordingly, Zhongzhi Herb Pieces has been accounted for as a subsidiary during the reporting period.

Withholding taxes arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. The estimation process is highly based on assumptions, which are influenced by projected future market and economic conditions and future financing requirements of the Group, and it is not probable that such subsidiary will distribute dividends in the foreseeable future.

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 discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least 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 units 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 2018 was RMB1,628,000.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on the ageing analysis of groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB506,000 (2018: RMB1,168,000). Further details are included in note 19 to the financial statements.

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Year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for inventory items identified to be no longer suitable for sale. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which the estimate has been changed. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether a provision needs to be made in respect of any obsolete inventories identified. The Group carries out an inventory review at the end of each reporting period and makes a provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period. The directors of the Company are satisfied that a sufficient provision for obsolete and slow-moving inventories has been made in the consolidated financial statements.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

For management purposes, the Group is organised into business units based on its sales channels and has three reportable operating segments as follows:

(a) Pharmaceutical manufacturing

(b) Operation of chain pharmacies

(c) Operation of on-line pharmacies

Separate individual financial information for different types of channels is presented to the board of directors who reviews the internal reports in order to assess performance and allocate resources.

Segment results are evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the board of directors.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

Since over 90% of the Group's revenue and operating profit were generated in the PRC and over 90% of the Group's non-current assets were located in the PRC, no geographical segment information in accordance with IFRS 8 Operating Segments is presented.

Information about major customers

During each of the years ended 31 December 2019 and 2018, no revenue from transactions with a single customer amounted to 10% or more of the Group's sales.

Operating segment information for the year ended 31 December 2019:

Year ended 31 December 2019

	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Operation of on-line pharmacies RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers (note 5)	753,400	535,380	53,402	1,342,182
Intersegment sales	40,335	—	—	40,335
Elimination of intersegment sales	(40,335)	—	—	(40,335)
Revenue	753,400	535,380	53,402	1,342,182
Cost of sales	(195,776)	(299,926)	(11,791)	(507,493)
Segment results	557,624	235,454	41,611	834,689
Reconciliation:				
Other income and gains				23,206
Selling and distribution expenses				(569,685)
Administrative expenses				(78,068)
Other expenses				(50,194)
Finance costs				(4,007)
Profit before tax				155,941

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Year ended 31 December 2019

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Operation of on-line pharmacies RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers (note 5)	633,761	462,231	46,158	1,142,150
Intersegment sales	44,034	—	—	44,034
Elimination of intersegment sales	(44,034)	—	—	(44,034)
Revenue	633,761	462,231	46,158	1,142,150
Cost of sales	(175,287)	(251,367)	(7,224)	(433,878)
Segment results	458,474	210,864	38,934	708,272
Reconciliation:				
Other income and gains				24,208
Selling and distribution expenses				(492,781)
Administrative expenses				(77,808)
Other expenses				(59,829)
Finance costs				(239)
Profit before tax				101,823

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5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	**1,342,182**	1,142,150

(i) Disaggregated revenue information

The Group's revenue is mainly derived from the sale of pharmaceutical products to customers in Mainland China and recognised at a point in time.

Disaggregation of revenue from contracts with customers is disclosed in Note 4.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of pharmaceutical products	**9,559**

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of pharmaceutical products

The performance obligation is satisfied upon delivery of the pharmaceutical products and payment is generally due within 15 to 90 days from delivery, except for the new customers and one-off purchase order customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (Continued)

	Note	2019 RMB'000	2018 RMB'000
Other income			
Bank interest income		**4,728**	1,626
Dividend income		**76**	932
Rental income		**361**	338
Interest income from financial assets at fair value through profit or loss		**3,472**	7,376
		8,637	10,272
Gains, net			
Government grants:			
— Related to assets		**1,308**	978
— Related to income		**3,806**	7,116
Gain on disposal of items of property, plant and equipment		**28**	5
Gain on disposal of an equity investment at fair value through profit or loss	8	**5,376**	6,040
Fair value gains/(losses), net:			
Equity investments at fair value through profit or loss	8	**3,386**	(2,120)
Others		**665**	1,917
		14,569	13,936
		23,206	24,208

6. OTHER EXPENSES

	Note	2019 RMB'000	2018 RMB'000
Loss on disposal of items of property, plant and equipment		**25**	347
Research and development costs		**47,448**	52,464
Write-down of inventories to net realisable value		**451**	4,851
Impairment losses on trade receivables	21	**1,246**	1,467
Others		**1,024**	700
		50,194	59,829

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	**3,930**	—
Interest on a bank borrowing	**77**	239
	4,007	239

8. 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	**507,493**	433,878
Depreciation of property, plant and equipment	14	**29,565**	24,240
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	15(a), 15(b)	**32,147**	470
Research and development costs	6	**47,448**	52,464
Advertising, marketing and promotion expenses		**126,358**	130,032
Amortisation of other intangible assets*	17	**1,822**	1,244
Write-down of inventories to net realisable value		**451**	4,851
Minimum lease payments under operating leases		**—**	40,481
Lease payments not included in the measurement of lease liabilities	15(d)	**6,343**	—
Auditor's remuneration		**2,908**	2,790
Impairment losses on trade receivables	21	**1,246**	1,467
Gain on disposal of an equity investment at fair value through profit or loss	5	**(5,376)**	(6,040)
Fair value (gains)/losses, net:			
Equity investments at fair value through profit or loss	5	**(3,386)**	2,120
Employee benefit expenses (including directors' remuneration (note 9)):			
Wages and salaries		**279,138**	246,652
Pension scheme contributions (defined contribution scheme)		**15,402**	15,702
Staff welfare expenses		**23,722**	20,351
Equity-settled share award expense		**1,638**	—
Others		**267**	267
		320,167	282,972

* The amortisation of other intangible assets for the reporting period is included in "Administrative expenses" in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the reporting period, 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	**2,012**	1,942
Other emoluments:		
Salaries, allowances and benefits in kind	**2,978**	2,062
Pension scheme contributions	**97**	131
Others	**267**	267
	5,354	4,402

(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
Ng Kwun Wan	**159**	154
Wong Kam Wah	**159**	154
Zhou Daihan	**159**	154
	477	462

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

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Year ended 31 December 2019

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and the chief executive

2019

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Others RMB'000	Total remuneration RMB'000
Executive directors:					
Lai Zhitian	458	954	25	267	1,704
Lai Yingfeng	266	700	20	—	986
Cheng Jinle	266	710	26	—	1,002
Cao Xiaojun	266	614	26	—	906
Non-executive directors:					
Jiang Lixia	279	—	—	—	279
Yang Aixing	—	—	—	—	—
	1,535	2,978	97	267	4,877

2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Others RMB'000	Total remuneration RMB'000
Executive directors:					
Lai Zhitian	443	921	36	267	1,667
Lai Yingfeng	149	274	16	—	439
Cheng Jinle	256	365	42	—	663
Mou Li	107	92	—	—	199
Cao Xiaojun	256	410	37	—	703
	1,211	2,062	131	267	3,671
Non-executive directors:					
Jiang Lixia	269	—	—	—	269
Yang Aixing	—	—	—	—	—
	1,480	2,062	131	267	3,940

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the reporting period.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2018: four directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2018: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**461**	313
Pension scheme contributions	**16**	16
	477	329

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2019	2018
Nil to HK$1,000,000	**1**	1

During the reporting period, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

The Hong Kong profits tax rate is 16.5% (2018: 16.5%) of assessable profits derived from Hong Kong during the year. Since the Group had no such profits during the reporting period, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

11. INCOME TAX EXPENSE (Continued)

Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the Group's subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income.

Zhongzhi Pharmaceutical and Honeson Pharmaceutical are qualified high and new technology enterprises and were subject to income tax at a preferential tax rate of 15% for the reporting period.

The income tax expense of the Group for the reporting period is analysed as follows:

	2019 RMB'000	2018 RMB'000
Mainland China		
Current income tax	**31,543**	23,420
Deferred income tax credit (note 28)	**9,704**	(6,666)
Total income tax expense	**41,247**	16,754

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2019 RMB'000	**%**	2018 RMB'000	%
Profit before tax	**155,941**		101,823	
Tax at the PRC statutory tax rate	**38,985**	**25.0**	25,456	25.0
Effect of different applicable tax rates for certain subsidiaries	**(10,394)**	**(6.7)**	(7,309)	(7.2)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**9,501**	**6.1**	—	—
Additional deduction for research and development expenses	**(866)**	**(0.5)**	(3,716)	(3.6)
Adjustment in respect of current tax of previous years	**3,026**	**1.9**	—	—
Income not subject to tax	**(57)**	**(0.0)**	(386)	(0.4)
Tax losses utilised from previous periods	**(1,995)**	**(1.2)**	(182)	(0.2)
Tax losses not recognised	**534**	**0.3**	388	0.4
Expenses not deductible for tax	**2,513**	**1.6**	2,503	2.5
Tax charge at the Group's effective tax rate	**41,247**	**26.5**	16,754	16.5

The effective tax rate of the Group was 26.5% in 2019 (2018: 16.5%).

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Year ended 31 December 2019

11. INCOME TAX EXPENSE (Continued)

In accordance with the Enterprise Income Tax Law of the PRC effective on 1 January 2008, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) 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. 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. As at 31 December 2019, the Group recognised a deferred tax liability of RMB9,501,000 (31 December 2018: Nil) in respect of the withholding tax on future dividend.

12. DIVIDENDS

	2019 **RMB'000**	2018 RMB'000
Interim — HK3.15 cents (2018: HK2.65 cents) per ordinary share	**23,782**	19,716
Special interim — HK1.45 cents (2018: HK1.7 cents) per ordinary share	**10,947**	12,649
Proposed final — HK2.9 cents (2018: HK2.0 cents) per ordinary share	**21,821**	14,720
Proposed special — HK1.45 cents (2018: HK1.6 cents) per ordinary share	**10,911**	11,776
	67,461	58,861

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

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 833,348,152 (2018: 833,221,500) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share award plan.

The calculations of basic and diluted earnings per share are based on:

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**114,694**	85,069

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Year ended 31 December 2019

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Continued)

	2019	2018
Shares		
Weighted average number of ordinary shares in issue	840,000,000	840,000,000
Weighted average number of shares held for the share award plan	(6,651,848)	(6,778,500)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	833,348,152	833,221,500
Effect of dilution — weighted average number of ordinary shares:		
Share award plan	1,200,000	—
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	834,548,152	833,221,500

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019 (restated) :							
Cost	102,715	120,588	65,168	4,732	25,360	88,479	407,042
Accumulated depreciation	(66,291)	(40,839)	(24,547)	(2,893)	(16,008)	—	(150,578)
Net carrying amount	36,424	79,749	40,621	1,839	9,352	88,479	256,464
At 31 December 2018 and 1 January 2019, net of accumulated depreciation	36,424	79,749	40,621	1,839	9,352	88,479	256,464
Additions	16,793	—	2,905	2,241	6,022	24,679	52,640
Disposals	—	—	(70)	(15)	(93)	—	(178)
Depreciation provided during the year (note 8)	(13,874)	(4,860)	(5,793)	(724)	(4,314)	—	(29,565)
Transfers	336	41,178	12,339	—	—	(53,853)	—
At 31 December 2019, net of accumulated depreciation	39,679	116,067	50,002	3,341	10,967	59,305	279,361
At 31 December 2019:							
Cost	119,844	161,766	79,032	6,690	30,832	59,305	457,469
Accumulated depreciation	(80,165)	(45,699)	(29,030)	(3,349)	(19,865)	—	(178,108)
Net carrying amount	39,679	116,067	50,002	3,341	10,967	59,305	279,361

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Year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	90,278	120,588	57,033	3,621	20,668	42,757	334,945
Accumulated depreciation	(59,235)	(36,655)	(20,968)	(2,532)	(12,357)	—	(131,747)
Net carrying amount	31,043	83,933	36,065	1,089	8,311	42,757	203,198
At 1 January 2018, net of accumulated depreciation	31,043	83,933	36,065	1,089	8,311	42,757	203,198
Additions	16,389	—	5,298	1,415	4,043	50,875	78,020
Disposals	—	—	(225)	(238)	(51)	—	(514)
Depreciation provided during the year (note 8)	(11,008)	(4,184)	(4,577)	(427)	(4,044)	—	(24,240)
Transfers	—	—	4,060	—	1,093	(5,153)	—
At 31 December 2018, net of accumulated depreciation	36,424	79,749	40,621	1,839	9,352	88,479	256,464
At 31 December 2018:							
Cost	102,715	120,588	65,168	4,732	25,360	88,479	407,042
Accumulated depreciation	(66,291)	(40,839)	(24,547)	(2,893)	(16,008)	—	(150,578)
Net carrying amount	36,424	79,749	40,621	1,839	9,352	88,479	256,464

As at 31 December 2019, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB352,000 (2018: RMB424,000). The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

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15. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, pharmacies and office premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 43 years, and no ongoing payments will be made under the terms of these land leases. Leases of pharmacies and office premises generally have lease terms between 3 and 5 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)

	RMB'000
Carrying amount at 1 January 2018	13,896
Recognised in profit or loss during the year	(470)
Carrying amount at 31 December 2018	13,426
Current portion	(470)
Non-current portion	12,956

(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:

	Pharmacies and office premises RMB'000	**Land use rights** RMB'000	**Total** RMB'000
As at 1 January 2019	104,652	13,426	118,078
Additions	14,739	8,867	23,606
Depreciation charge	(31,677)	(470)	(32,147)
As at 31 December 2019	**87,714**	**21,823**	**109,537**

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Year ended 31 December 2019

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	111,494
New leases	14,739
Accretion of interest recognised during the year	3,930
Payments	(34,010)
Carrying amount at 31 December 2019	96,153
Analysed into:	
Current portion	32,187
Non-current portion	63,966

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

	2019 RMB'000
Interest on lease liabilities	3,930
Depreciation charge of right-of-use assets	32,147
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	6,343
Total amount recognised in profit or loss	42,420

The total cash outflows for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 34 (a) and 35, respectively, to the financial statements.

Notes to the Consolidated Financial Statements

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15. LEASES (Continued)

The Group as a lessor

The Group leases its leased properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB361,000 (2018: RMB338,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 **RMB'000**	2018 RMB'000
Within one year	**218**	350
After one year but within two years	**91**	195
	309	545

16. GOODWILL

	2019 **RMB'000**	2018 RMB'000
At 1 January and 31 December	**1,628**	1,628

Goodwill is acquired through the business combination of Honeson Pharmaceutical in the prior year. Goodwill acquired through the business combination is allocated to the pharmaceutical drugs cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the years ended 31 December 2019 and 2018.

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17. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents and licences RMB'000	Total RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	**8,877**	**—**	**8,877**
Additions	**8,875**	**—**	**8,875**
Acquisition of a subsidiary (note 33)	**—**	**2,697**	**2,697**
Disposals	**(68)**	**—**	**(68)**
Amortisation provided during the year (note 8)	**(1,664)**	**(158)**	**(1,822)**
At 31 December 2019	**16,020**	**2,539**	**18,559**
At 31 December 2019:			
Cost	**20,956**	**2,697**	**23,653**
Accumulated amortisation	**(4,936)**	**(158)**	**(5,094)**
Net carrying amount	**16,020**	**2,539**	**18,559**
31 December 2018			
At 1 January 2018:			
Cost	12,577	—	12,577
Accumulated amortisation	(2,164)	—	(2,164)
Net carrying amount	10,413	—	10,413
Cost at 1 January 2018, net of accumulated amortisation	10,413	—	10,413
Additions	849	—	849
Disposals	(1,141)	—	(1,141)
Amortisation provided during the year	(1,244)	—	(1,244)
At 31 December 2018	8,877	—	8,877
At 31 December 2018 and at 1 January 2019:			
Cost	12,166	—	12,166
Accumulated amortisation	(3,289)	—	(3,289)
Net carrying amount	8,877	—	8,877

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

18. INVESTMENT IN A JOINT VENTURE

	2019 RMB'000	2018 RMB'000
Share of net assets	**417**	421

Particulars of the joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activity
Scienwi Pharmaceutical Technology Company Limited	Ordinary shares	Macao	48%	Sale of pharmaceutical products

The above investment is held through the wholly-owned subsidiaries of the Company.

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	**9,890**	10,556
Unlisted equity investment, at fair value	**506**	1,168
	10,396	11,724

The above listed equity investment was classified as equity investment at fair value through profit or loss as it was held for trading. In 2019, the Group disposed of part of the shares. The total gain on disposal from this investment amounted to RMB5,376,000.

The above unlisted equity investment was classified as equity investment at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**47,043**	30,483
Work in progress	**6,841**	7,684
Finished goods	**145,155**	140,825
	199,039	178,992

Inventories with a value of RMB4,851,000 (2018: RMB5,926,000) are carried at net realisable value, which is lower than cost.

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21. TRADE AND NOTES RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**166,046**	117,850
Less: Impairment of trade receivables	**(2,713)**	(1,467)
Trade receivables, net	**163,333**	116,383
Notes receivable	**79,431**	45,650
	242,764	162,033

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers and one-off purchase order customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to enforce strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and notes receivables relate to customers with good track records, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing. The fair value of trade and notes receivables approximates to their carrying amount.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	**99,705**	45,923
1 to 3 months	**31,467**	36,699
3 to 6 months	**16,763**	14,281
6 to 12 months	**11,007**	16,155
Over 12 months	**4,391**	3,325
	163,333	116,383

21. TRADE AND NOTES RECEIVABLES (Continued)

The movement in the loss allowance for impairment of trade receivables is as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	1,467	—
Impairment losses, net	1,246	1,467
At end of year	2,713	1,467

The Group manages its notes receivable using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets and hence, they are categorised as financial assets measured at fair value through other comprehensive income after the adoption of IFRS 9.

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2019 and 2018. As at 31 December 2019, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB18,360,000 (2018: RMB23,405,000). The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes (note 40).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing analysis for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). 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 two years and are not subject to enforcement activity.

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

	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.74%	19.77%	100.00%	1.63%
Gross carrying amount (RMB'000)	160,129	5,473	444	166,046
Expected credit losses (RMB'000)	1,187	1,082	444	2,713

As at 31 December 2018

	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.48%	15.83%	100.00%	1.24%
Gross carrying amount (RMB'000)	113,602	3,950	298	117,850
Expected credit losses (RMB'000)	544	625	298	1,467

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 **RMB'000**	2018 RMB'000
Prepayments	**4,926**	10,094
Value added tax recoverable	**3,635**	4,675
Deposits and other receivables	**7,862**	7,670
	16,423	22,439

23. CASH AND BANK BALANCES

	2019 **RMB'000**	2018 RMB'000
Cash and bank balances	**373,996**	316,534
Time deposits	**6,337**	16,164
	380,333	332,698
Denominated in:		
— RMB	**377,333**	329,258
— Hong Kong Dollars ("HK$")	**3,000**	3,440
	380,333	332,698

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and HK$. 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 are deposited with creditworthy banks with no recent history of default.

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24. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 **RMB'000**	2018 RMB'000
Within 3 months	**90,813**	74,778
3 to 6 months	**3,686**	5,105
6 to 12 months	**1,082**	3,282
over 12 months	**8,719**	2,253
	104,300	85,418

The trade payables are non-interest-bearing and are normally settled on terms of not exceeding 120 days.

25. OTHER PAYABLES AND ACCRUALS

	Notes	**31 December 2019 RMB'000**	1 January 2019 RMB'000	31 December 2018 RMB'000
Contract liabilities	(a)	**13,229**	9,559	9,559
Other payables	(b)	**69,185**	34,682	34,682
Accruals	(c)	**380**	701	7,544
Accrued salaries and welfare		**35,147**	33,119	33,119
Endorsed notes	40	**18,360**	23,405	23,405
Deposits received		**43,359**	37,620	37,620
Payables for purchases of property, equipment and other intangible assets		**7,187**	10,695	10,695
Other tax payables		**9,542**	4,428	4,428
		196,389	154,209	161,052

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25. OTHER PAYABLES AND ACCRUALS (Continued)

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers Sales of goods	**13,229**	9,559	8,037
Total contract liabilities	**13,229**	9,559	8,037

Contract liabilities include short-term advances received to deliver pharmaceutical products. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to the number of new customers increased.

(b) Other payables are non-interest-bearing and have an average term of six months.

(c) As a result of the initial application of IFRS 16, accrued lease payments of RMB6,843,000 previously included in "Other payables and accruals" were adjusted to the right-of-use assets recognised at 1 January 2019 (refer to note 2.2 to the financial statements for further details).

26. INTEREST-BEARING BANK BORROWINGS

	31 December 2019			31 December 2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank overdrafts – unsecured	**3.46**	**2020**	**31,352**	—	—	—
			31,352			—

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank overdrafts repayable:		
Within one year or on demand	**31,352**	—
	31,352	—

The Group's unsecured overdraft facilities amounting to RMB30,000,000 (2018: RMB30,000,000) and HK$40,000,000 (2018:HK$20,000,000), of which HK$35,000,000 (2018: Nil) was utilised as at the end of the reporting period.

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27. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
At 1 January	**27,534**	22,942
Received amounts	**14,701**	12,687
Released amounts	**(5,114)**	(8,094)
At 31 December	**37,121**	27,535
Current	**19,353**	7,531
Non-current	**17,768**	20,004
	37,121	27,535

Deferred income represents grants received from the government for the purpose of subsidising the expenses arising from research and development activities and the improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities during the reporting period are as follows:

	2019								
	Deferred tax assets								
	Accruals RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Advertising and promotion expenses RMB'000	Lease liabilities RMB'000	Unrealised profit from intercompany transactions RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2018	943	1,159	220	4,331	1,379	—	2,611	556	11,199
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	—	(57)	186	1,505	(1,379)	2,110	369	(556)	2,178
As at 31 December 2019	943	1,102	406	5,836	—	2,110	2,980	—	13,377

	2018							
	Deferred tax assets							
	Accruals RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Advertising and promotion expenses RMB'000	Unrealised profit from intercompany transactions RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2018	237	431	—	3,642	1,589	1,782	—	7,681
Deferred tax credited/(charged) to the statement of profit or loss during the year	706	728	220	689	(210)	829	556	3,518
As at 31 December 2018	943	1,159	220	4,331	1,379	2,611	556	11,199

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

	2019				
	Deferred tax liabilities				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Withholding taxes RMB'000	Total RMB'000
At 31 December 2018	**(195)**	**(1,196)**	**—**	**—**	**(1,391)**
Deferred tax charged to the statement of profit or loss during the year (note 11)	**(1,850)**	**38**	**(569)**	**(9,501)**	**(11,882)**
As at 31 December 2019	**(2,045)**	**(1,158)**	**(569)**	**(9,501)**	**(13,273)**

	2018			
	Deferred tax liabilities			
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2018	(233)	(1,234)	(3,072)	(4,539)
Deferred tax charged to the statement of profit or loss during the year	38	38	3,072	3,148
At 31 December 2018	(195)	(1,196)	—	(1,391)

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

At 31 December 2019, the Group had tax losses arising in Mainland China of RMB3,568,000 (2018: RMB5,778,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of the following items:

	2019 RMB'000	2018 RMB'000
Tax losses	**3,568**	5,778

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2019, deferred tax liabilities for withholding taxes have not been provided on unremitted earnings of RMB386,148,000 (31 December 2018: RMB352,924,000) of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

29. ISSUED CAPITAL

	2019	2018
Issued and fully paid: 840,000,000 (2018: 840,000,000) ordinary shares of HK$0.01 each (HK$'000)	**8,400**	8,400
Equivalent to RMB'000	**6,650**	6,650

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

	Number of issued and fully paid ordinary shares	**Share capital** RMB'000
At 1 January 2018	840,000,000	6,650
Issue of new shares	—	—
At 31 December 2018 and 1 January 2019	840,000,000	6,650
Issue of new shares	—	—
At 31 December 2019	**840,000,000**	**6,650**

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme was conditionally adopted on 8 June 2015 which became effective on 13 July 2015.

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

The offer of a grant of share options may be accepted within the date as specified in the offer letter issued by the Company, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

Further details of the Company's share option scheme are set out in the Group's Report of the Directors on pages 82 to 83.

No share options were granted during the year ended 31 December 2019 and no share options were outstanding under the Scheme as at 31 December 2019 and 2018.

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31. SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further develop and expand the business of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee (the "Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan exceeding 1% of the issued share capital of the Company.

In order to recognise and reward the contribution of and solidify the relationship with the service providers and distributors, the Board has resolved to increase the limit of the Share Award Plan from 1% of the issued share capital of the Company to 2.5% of the issued share capital of the Company on 25 March 2019.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Plan, the plan will be valid and effective for a term of 10 years commencing on the date of adoption.

In 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000).

The Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.45) on the day of the grant, amounting to HK$184,000 (equivalent to approximately RMB161,000).

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the "Eligible Persons") on 25 March 2019, which was subject to satisfaction of certain performance target for year 2019. As at 31 December 2019, according to the achievement status of performance of the Eligible Persons, 1,200,000 shares shall be vested while the remaining was forfeited due to failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.439) on the day of the grant, amounting to HK$1,727,000 (equivalent to approximately RMB1,477,000).

The Group recognised a share award expense of nil and RMB1,638,000 for 2018 and 2019, respectively.

As at 31 December 2019, 6,651,500 shares of the Company were held by the Trustee and have yet to be awarded.

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Year ended 31 December 2019

32. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on page 99.

(a) Merger reserve

The merger reserve of the Group represents the capital contribution from its then shareholders of Zhongzhi Pharmaceutical amounting to RMB31,200,000.

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) Share-based payment reserve

The share-based payment reserve represents the difference between the fair value of the shares granted to employees of the Group and the costs paid by these employees through Zhongshan Yu Xin Investment Limited with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the grant date based on the discounted cash flow method. As there were no future service conditions attached to the share-based payments, the share-based payments were vested immediately in 2012 and were recognised as an employee benefit expense.

33. ACQUISITION OF A SUBSIDIARY

On 25 October 2019, the Group acquired 100% interests in Guangdong Zhongzhida Pharmaceutical Co., Ltd. ("Guangdong Zhongzhida") from independent third party individuals Feng Guoqiang and Zeng Rong. Guangdong Zhongzhida is a privately-owned company incorporated under the Laws of Mainland China. The purchase consideration for the acquisition was in the form of cash of RMB700,000.

The fair values of the identifiable assets and liabilities of Guangdong Zhongzhida as at the date of acquisition were as follows:

	Note	**2019 RMB'000**
Trade receivables		**224**
Prepayments, deposits, and other receivables		**136**
Cash and cash equivalents		**140**
Other intangible assets	17	**2,697**
Interest-bearing bank borrowings		**(1,379)**
Other payables and accruals		**(1,118)**
Total identifiable net assets at fair value		**700**
Satisfied by cash		**700**

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33. ACQUISITION OF A SUBSIDIARY (Continued)

An analysis of the cash flows in respect of the acquisition of Guangdong Zhongzhida is as follows:

	2019 RMB'000
Cash consideration	(700)
Cash and bank balances acquired	140
Net outflow of cash and cash equivalents included in cash flows from investing activities	(560)

In the opinion of the directors, the acquisition of Guangdong Zhongzhida does not constitute a business. Therefore, the transactions were determined by the directors of the Company to be the acquisition of assets and liabilities through acquisition of subsidiaries rather than a business combination as defined in IFRS 3 *Business Combinations*.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

2019

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019 (restated)	—	111,494	111,494
Changes from financing cash flows	31,352	(34,010)	(2,658)
New leases (note 15)	—	14,739	14,739
Interest expense (note 7)	—	3,930	3,930
At 31 December 2019	31,352	96,153	127,505

(b) Total cash outflows for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within financing activities	(34,010)

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35. COMMITMENTS

(a) 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:		
Plant and machinery	**55,506**	10,004
	55,506	10,004

At 31 December 2019 and 31 December 2018, the Group had a significant capital commitment, which is authorised but not contracted for, of RMB45,469,820 and nil, respectively.

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from 1 to 10 years. At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	40,009
In the second to fifth years, inclusive	91,143
After five years	8,518
	139,670

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36. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2019 and 2018 represent consideration received from the Registered Shareholders as part of the historical reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herb Pieces by the Group. The amounts are unsecured, interest-free and have no fixed terms of repayment.

(b) Compensation of key management personnel of the Group:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**7,572**	5,652
Pension scheme contributions	**189**	260
Others	**267**	267
	8,028	6,179

Further details of directors' and the chief executive's emoluments are included in note 9.

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37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	—	—	163,333	163,333
Notes receivable	—	—	79,431	—	79,431
Equity investments at fair value through profit or loss	506	9,890	—	—	10,396
Financial assets included in prepayments, deposits and other receivables	—	—	—	7,862	7,862
Financial assets included in other non-current assets	—	—	—	5,967	5,967
Cash and bank balances	—	—	—	380,333	380,333
	506	9,890	79,431	557,495	647,322

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amount due to a joint venture	70
Trade payables	104,300
Interest-bearing bank borrowings	31,352
Lease liabilities	96,153
Financial liabilities included in other payables and accruals	106,617
Amounts due to related parties	8,786
	347,278

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37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2018

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	—	—	116,383	116,383
Notes receivable	—	—	45,650	—	45,650
Equity investments at fair value through profit or loss	1,168	10,556	—	—	11,724
Financial assets included in prepayments, deposits and other receivables	—	—	—	7,670	7,670
Financial assets included in other non-current assets	—	—	—	6,031	6,031
Cash and bank balances	—	—	—	332,698	332,698
	1,168	10,556	45,650	462,782	520,156

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amount due to a joint venture	70
Trade payables	85,418
Financial liabilities included in other payables and accruals	113,946
Amounts due to related parties	8,786
	208,220

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, financial assets included in other non-current assets, trades payables, financial liabilities included in other payables and accruals, financial assets included in other non-current assets and an amount due to a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments or immaterial impact on discounting for financial assets included in other non-current assets.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest and taxes ("EV/EBIT"), for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

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 measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Equity investment at fair value through profit or loss	**9,890**	**—**	**506**	**10,396**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investment at fair value through profit or loss	10,556	—	1,168	11,724

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets at fair value through profit or loss, interest-bearing bank borrowings and cash and bank balances. The Group has various other financial assets and liabilities such as trade and notes 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 and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and time deposits at banks. Therefore, the Group does not have any significant exposure to risk of changes in market interest rates. The Group currently does not have a specific policy to manage its interest rate risk and has not entered into interest rate swaps.

Foreign currency risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in HK$. In addition, the Company will pay dividends in HK$ in the future. Any significant exchange rate fluctuations of HK$ against RMB may have financial impacts on the Group.

The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rates, and no hedging transaction or forward contract arrangement was made by the Group during the reporting period. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and HK$ exchange rate movement.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before (or after) tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before (or after) tax RMB'000	Increase/ (decrease) in equity* RMB'000
2019			
If RMB weakens against HK$	**5**	**—**	**10,695**
If RMB strengthens against HK$	**(5)**	**—**	**(10,695)**
2018			
If RMB weakens against HK$	5	830	14,158
If RMB strengthens against HK$	(5)	(830)	(14,158)

* Excluding retained profits

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables*	—	—	—	242,764	242,764
Financial assets included in prepayments, deposits and other receivables					
— Normal**	7,862	—	—	—	7,862
Financial assets included in other non-current assets					
— Normal**	5,967	—	—	—	5,967
Cash and cash equivalents					
— Not yet past due	380,333	—	—	—	380,333
	394,162	—	—	242,764	636,926

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables*	—	—	—	162,033	162,033
Financial assets included in prepayments, deposits and other receivables					
— Normal**	7,670	—	—	—	7,670
Financial assets included in other non-current assets					
— Normal**	6,031	—	—	—	6,031
Cash and cash equivalents					
— Not yet past due	332,698	—	—	—	332,698
	346,399	—	—	162,033	508,432

* For trade and notes receivables to which the Group applies the simplified approach for impairment, the provision for ECLs for notes receivable is considered to be minimal and the information based on the provision matrix of trade receivables is disclosed in note 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables and the financial assets included in other non-current assets are considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 21.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Amount due to a joint venture	**70**	**—**	**—**	**—**	**—**	**70**
Trade payables	**21,311**	**82,989**	**—**	**—**	**—**	**104,300**
Lease liabilities	**—**	**9,654**	**28,889**	**66,587**	**3,755**	**108,885**
Financial liabilities included in other payables	**105,819**	**19,942**	**12,241**	**88**	**—**	**138,090**
Interest-bearing bank borrowings	**—**	**31,622**	**—**	**—**	**—**	**31,622**
Amounts due to related parties	**8,786**	**—**	**—**	**—**	**—**	**8,786**
	135,986	**144,207**	**41,130**	**66,675**	**3,755**	**391,753**

	2018				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Amount due to a joint venture	70	—	—	—	70
Trade payables	8,861	76,362	195	—	85,418
Financial liabilities included in other payables and accruals	81,086	14,442	18,156	262	113,946
Amounts due to related parties	8,786	—	—	—	8,786
	98,803	90,804	18,351	262	208,220

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

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 the shareholders, return capital to the shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is calculated by dividing total interest-bearing bank borrowings by total equity. Capital represents equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratio as at the end of the reporting period was as follows:

	2019 **RMB'000**	2018 RMB'000
Interest-bearing bank borrowings	**31,352**	—
Equity attributable to owners of the parent	**763,383**	706,592
Gearing ratio	**4%**	—

40. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2019 and 2018, the Group endorsed certain notes receivable accepted by certain banks in Mainland China (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the Endorsement, the Group does not retain any rights to the use of the Endorsed Notes, including the sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The total carrying amount of the Endorsed Notes as at 31 December 2019 was RMB71,426,000 (2018: RMB77,450,000), of which the Endorsed Notes and the associated trade payables with a carrying amount of RMB53,066,000 as at 31 December 2019 (2018: RMB54,045,000), had been fully derecognised. The Group carefully assesses the default risk of the PRC banks. The Group only derecognises the notes receivable that have been accepted by banks with high credit reputation as the directors are of the view that the default risk of these banks is remote and the Group has transferred substantially all the risks and rewards relating to such notes (the "Derecognised Notes"). The Derecognised Notes had a maturity of 1 to 9 months at the end of the reporting period. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase the Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant, given the insignificant default risk of the related PRC banks.

During the years ended 31 December 2019 and 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the years ended 31 December 2019 and 2018 or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

40. TRANSFERS OF FINANCIAL ASSETS (Continued)

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and associated trade payables settled of RMB18,360,000 as at 31 December 2019 (2018: RMB23,405,000), as the directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

41. 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		
Interests in subsidiaries	**273,260**	292,306
Right-of-use assets	**330**	—
Total non-current assets	**273,590**	292,306
CURRENT ASSETS		
Prepayments, deposits and other receivables	**230**	263
Cash and bank balances	**8,904**	19,470
Total current assets	**9,134**	19,733
CURRENT LIABILITIES		
Due to subsidiaries	**17,287**	16,909
Other payables and accruals	**240**	183
Interest-bearing bank borrowings	**31,352**	—
Lease Liability	**333**	—
Total current liabilities	**49,212**	17,092
NET CURRENT ASSETS	**(40,078)**	2,641
TOTAL ASSETS LESS CURRENT LIABILITIES	**233,512**	294,947
Net assets	**233,512**	294,947
Equity		
Issued capital	**6,650**	6,650
Reserves (Note)	**226,862**	288,297
Total equity	**233,512**	294,947

Notes to the Consolidated Financial Statements

Year ended 31 December 2019

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium* RMB'000	Shares held for the share award plan* RMB'000	Share award reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2018	363,014	(13,181)	(549)	20,663	(28,248)	341,699
Loss for the year	—	—	—	—	(11,125)	(11,125)
Exchange differences on translation of foreign operations	—	—	—	16,474	—	16,474
Total comprehensive loss for the year	—	—	—	16,474	(11,125)	5,349
Final 2017 dividend	(26,647)	—	—	—	—	(26,647)
Interim 2018 dividend	(32,104)	—	—	—	—	(32,104)
At 31 December 2018	304,263	(13,181)	(549)	37,137	(39,373)	288,297
Loss for the year	—	—	—	—	(8,433)	(8,433)
Exchange differences on translation of foreign operations	—	—	—	6,183	—	6,183
Total comprehensive loss for the year	—	—	—	6,183	(8,433)	(2,250)
Equity-settled share award expense	—	2,603	(965)	—	—	1,638
Final 2018 dividend	(26,367)	—	—	—	—	(26,367)
Interim 2019 dividend	(34,456)	—	—	—	—	(34,456)
At 31 December 2019	**243,440**	**(10,578)**	**(1,514)**	**43,320**	**(47,806)**	**226,862**

* Included in the reserves in the statement of financial position of the Company

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2020.

Five Year Financial Summary

The following is a summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the Prospectus and published audit financial statements of the Group. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,342,182**	1,142,150	944,634	730,472	688,036
GROSS PROFIT	**834,689**	708,272	564,253	399,438	375,078
PROFIT BEFORE TAX	**155,941**	101,823	89,875	69,159	101,191
Income tax expense	**(41,247)**	(16,754)	(19,819)	(15,287)	(20,652)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	**114,694**	85,069	70,056	53,872	80,539
Earnings per share – Basic	**RMB0.14**	RMB0.10	RMB0.09	RMB0.07	RMB0.11
– Diluted	**RMB0.14**	RMB0.10	RMB0.09	RMB0.07	RMB0.11

ASSETS AND LIABILITIES

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,280,539**	1,011,486	911,952	755,228	723,528
TOTAL LIABILITIES	**517,156**	304,894	243,677	186,847	160,840