國藥控股股份有限公司
SINOPHARM GROUP CO. LTD.*

国药集团
SINOPHARM

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)

Stock Code: 01099

* *The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name "Sinopharm Group Co. Ltd.".*

COMPANY PROFILE

Sinopharm Group Co. Ltd. (the "**Company**", "**Sinopharm**" or "**Sinopharm Group**", together with its subsidiaries referred to as the "**Group**"), which was established in January 2003 and listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (stock code: 01099. HK) in September 2009, is a core subsidiary of China National Pharmaceutical Group Co., Ltd. ("**CNPGC**") and the largest wholesaler and retailer of pharmaceutical and healthcare products and medical devices, and a leading supply-chain service provider in the PRC.

The Group is mainly engaged in pharmaceutical distribution business. Leveraging on its nationwide distribution and delivery network, the Group provides comprehensive distribution, logistics and other value-added services to domestic and foreign manufacturer and suppliers of pharmaceutical products, medical devices and consumables and other healthcare products, and also to downstream customers including hospitals, other distributors, retail drug stores and primary health services institutions.

Meanwhile, the Group manages its network of retail drug stores chain in major cities of China via direct operations and franchises to sell pharmaceutical and healthcare products to end customers. It has become a leader in China's pharmaceutical retail industry.

Besides, the Group is also engaged in the production and sale of pharmaceutical products, chemical reagents and laboratory supplies, and actively engaged in the innovation of pharmaceutical, medical services and other health-related industries, to explore the synergistic development of its diversified businesses.

Taking advantage of its superior economies of scale, customer resources, network platforms and brand position, the Group will fully leverage on China's pharmaceutical and healthcare market, which shows steady and healthy growth, and capture opportunities arising from healthcare reform to further consolidate and enhance its market leadership, actively striving to become a pharmaceutical and healthcare service provider with international competitiveness.

CORPORATE MISSION

All for Health
Health for All

CORPORATE VISION

Becoming a premium
global pharmaceutical and
healthcare service provider

Contents

Corporate Information

As at the date of this report

Directors

Mr. Li Zhiming *(Executive Director and Chairman)*
Mr. Yu Qingming *(Executive Director)*
Mr. Liu Yong *(Executive Director and President)*
Mr. Chen Qiyu *(Non-executive Director and Vice Chairman)*
Mr. Ma Ping *(Non-executive Director)*
Mr. Hu Jianwei *(Non-executive Director)*
Mr. Deng Jindong *(Non-executive Director)*
Mr. Wen Deyong *(Non-executive Director)*
Ms. Guan Xiaohui *(Non-executive Director)*
Ms. Dai Kun *(Non-executive Director)*
Mr. Yu Tze Shan Hailson *(Independent Non-executive Director)*
Mr. Tan Wee Seng *(Independent Non-executive Director)*
Mr. Liu Zhengdong *(Independent Non-executive Director)*
Mr. Zhuo Fumin *(Independent Non-executive Director)*
Mr. Chen Fangruo *(Independent Non-executive Director)*

Supervisors

Mr. Yao Fang *(Chief Supervisor)*
Mr. Tao Wuping
Mr. Zhang Hongyu
Ms. Li Xiaojuan
Ms. Jin Yi

Joint Company Secretaries

Mr. Wu Yijian
Mr. Liu Wei

Strategy and Investment Committee

Mr. Li Zhiming *(Chairman)*
Mr. Yu Qingming
Mr. Liu Yong
Mr. Chen Qiyu
Mr. Ma Ping
Mr. Hu Jianwei
Mr. Deng Jindong
Mr. Wen Deyong
Ms. Guan Xiaohui
Mr. Tan Wee Seng
Mr. Chen Fangruo

Audit Committee

Mr. Tan Wee Seng *(Chairman)*
Mr. Deng Jindong
Ms. Guan Xiaohui
Mr. Liu Zhengdong
Mr. Zhuo Fumin

Remuneration Committee

Mr. Liu Zhengdong *(Chairman)*
Mr. Deng Jindong
Mr. Wen Deyong
Mr. Yu Tze Shan Hailson
Mr. Tan Wee Seng

Nomination Committee

Mr. Li Zhiming *(Chairman)*
Mr. Hu Jianwei
Ms. Dai Kun
Mr. Yu Tze Shan Hailson
Mr. Liu Zhengdong
Mr. Zhuo Fumin
Mr. Chen Fangruo

Legal and Compliance Committee

Mr. Liu Zhengdong *(Chairman)*
Mr. Li Zhiming
Mr. Yu Qingming

Authorized Representatives

Mr. Li Zhiming
Mr. Wu Yijian

Legal Advisers

As to Hong Kong and United States laws:
DLA Piper UK LLP

As to PRC law:
Beijing Zhonglun (Shanghai) Law Firm
Shanghai Boss & Young Attorneys at Law

Auditor

International auditor:
Ernst & Young

Domestic auditor:
Ernst & Young Hua Ming LLP

Principal Place of Business in Hong Kong

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

Principal Place of Business and Headquarter in the PRC

Sinopharm Plaza
No. 1001 Zhongshan Road (West)
Changning District
Shanghai 200051, the PRC

Registered Office in the PRC

6th Floor, No. 221 Fuzhou Road
Shanghai 200002, the PRC

Company's Website

www.sinopharmgroup.com.cn

H Share Registrar

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

Stock Code

01099

Principal Banks

Bank of Communications Co., Ltd.
Shanghai Branch
China Merchants Bank Co., Ltd.
Shanghai Branch
Bank of China Limited
Shanghai Branch
China Minsheng Banking Corp., Ltd.
Shanghai Branch
Industrial and Commercial Bank of China Limited
Shanghai Branch
Agricultural Bank of China Co., Ltd.
Shanghai Branch
China Construction Bank Co., Ltd.
Shanghai Branch

Office of Board of Directors

Tel: (+86 21) 2305 2666
Email: ir@sinopharm.com

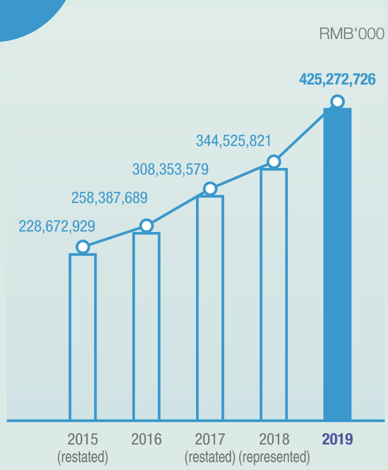
Financial Highlights

RMB'000

	2015	2015 (restated)	2016	2017	2017 (restated)	2018	2018 (represented)	**2019**
Operating results								
Revenue	227,069,433	228,672,929	258,387,689	277,717,018	308,353,579	344,525,821	344,525,821	**425,272,726**
Gross profit	18,617,529	18,720,313	20,670,673	23,076,554	26,048,865	31,228,092	31,228,092	**37,531,303**
Operating profit	9,169,204	9,227,323	10,213,720	11,905,966	13,140,388	15,396,806	14,067,974	**16,136,744**
Earnings before interest and tax	9,396,713	9,456,979	10,856,642	12,706,623	13,996,518	16,321,803	14,992,971	**16,903,274**
Profit for the year attributable to equity holders of the parent	3,760,649	3,772,222	4,647,344	5,283,091	5,575,584	5,835,842	5,835,842	**6,252,537**
Profitability								
Gross margin	8.20%	8.19%	8.00%	8.31%	8.45%	9.06%	9.06%	**8.83%**
Operating margin	4.04%	4.04%	3.95%	4.29%	4.26%	4.47%	4.08%	**3.79%**
Net profit margin	2.51%	2.51%	2.67%	2.83%	2.81%	2.73%	2.73%	**2.50%**
Asset status								
Total assets	138,267,028	139,429,696	157,711,590	169,539,028	190,693,400	235,771,077	235,771,077	**269,888,371**
Equity attributable to equity holders of the parent	30,051,626	30,110,310	31,810,928	35,257,635	38,301,481	42,821,826	42,821,826	**47,422,146**
Total liabilities	97,611,323	98,551,019	113,179,154	118,269,374	132,746,210	167,495,310	167,495,310	**192,949,004**
Cash and cash equivalents	19,919,154	19,966,052	25,572,759	29,011,436	32,240,796	40,298,985	40,298,985	**39,191,967**
Gearing ratio	70.60%	70.68%	71.76%	69.76%	69.61%	71.04%	71.04%	**71.49%**
Liquidity ratio								
Current ratio (times)	1.23	1.23	1.33	1.31	1.31	1.28	1.28	**1.29**
Inventory turnover ratio (days)	37	37	37	37	37	38	38	**36**
Trade receivables turnover ratio (days)	105	104	95	95	92	99	99	**98**
Trade payables turnover ratio (days)	97	97	96	94	91	90	90	**85**
Data per share (RMB)								
Earnings per share – Basic	1.36	1.36	1.68	1.91	1.88	1.97	1.97	**2.11**
Earnings per share – Fully diluted	1.36	1.36	1.68	1.91	1.88	1.96	1.96	**2.10**

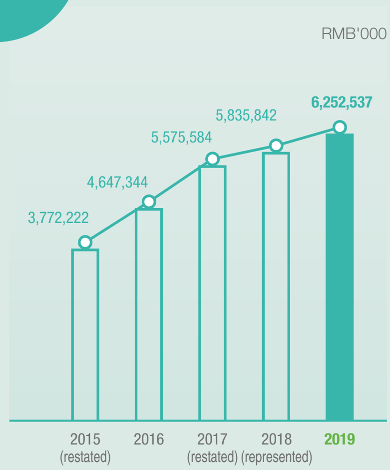
Revenue

CAGR of 2015-2019 **16.78%**



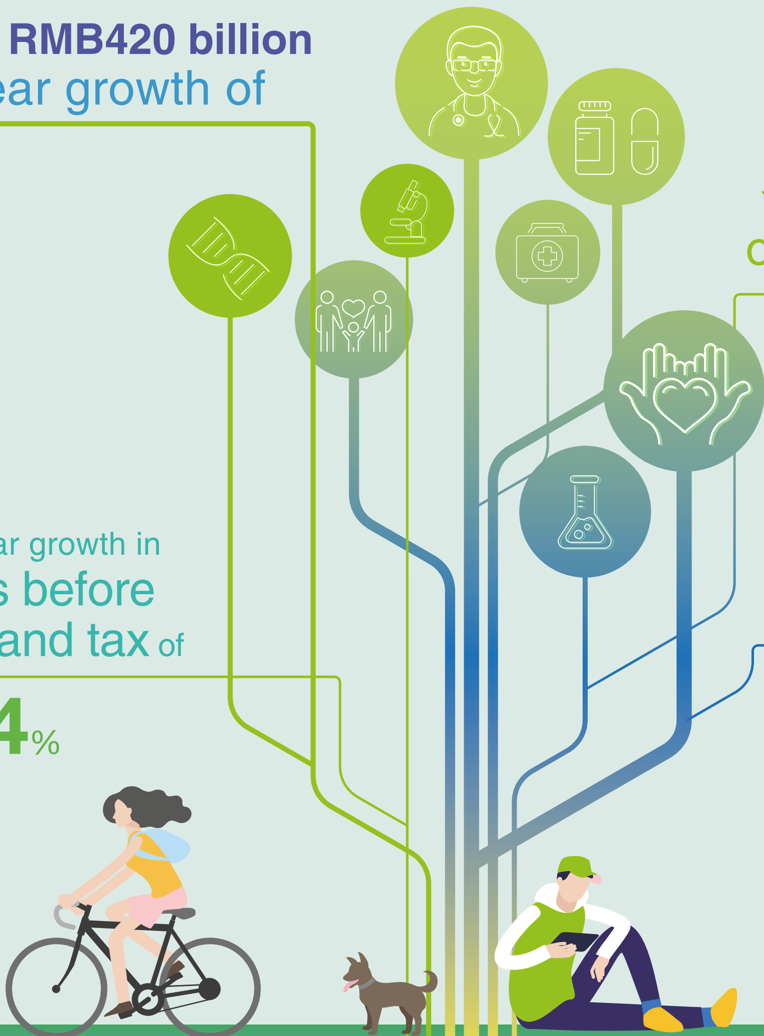
Profit of the year attributable to owners of the parent

CAGR of 2015-2019 **13.47%**



Revenue over **RMB420 billion**
Year-on-year growth of

23.44%



Year-on-year growth in operating profit of

14.71%

Year-on-year growth in earnings before interest and tax of

12.74%

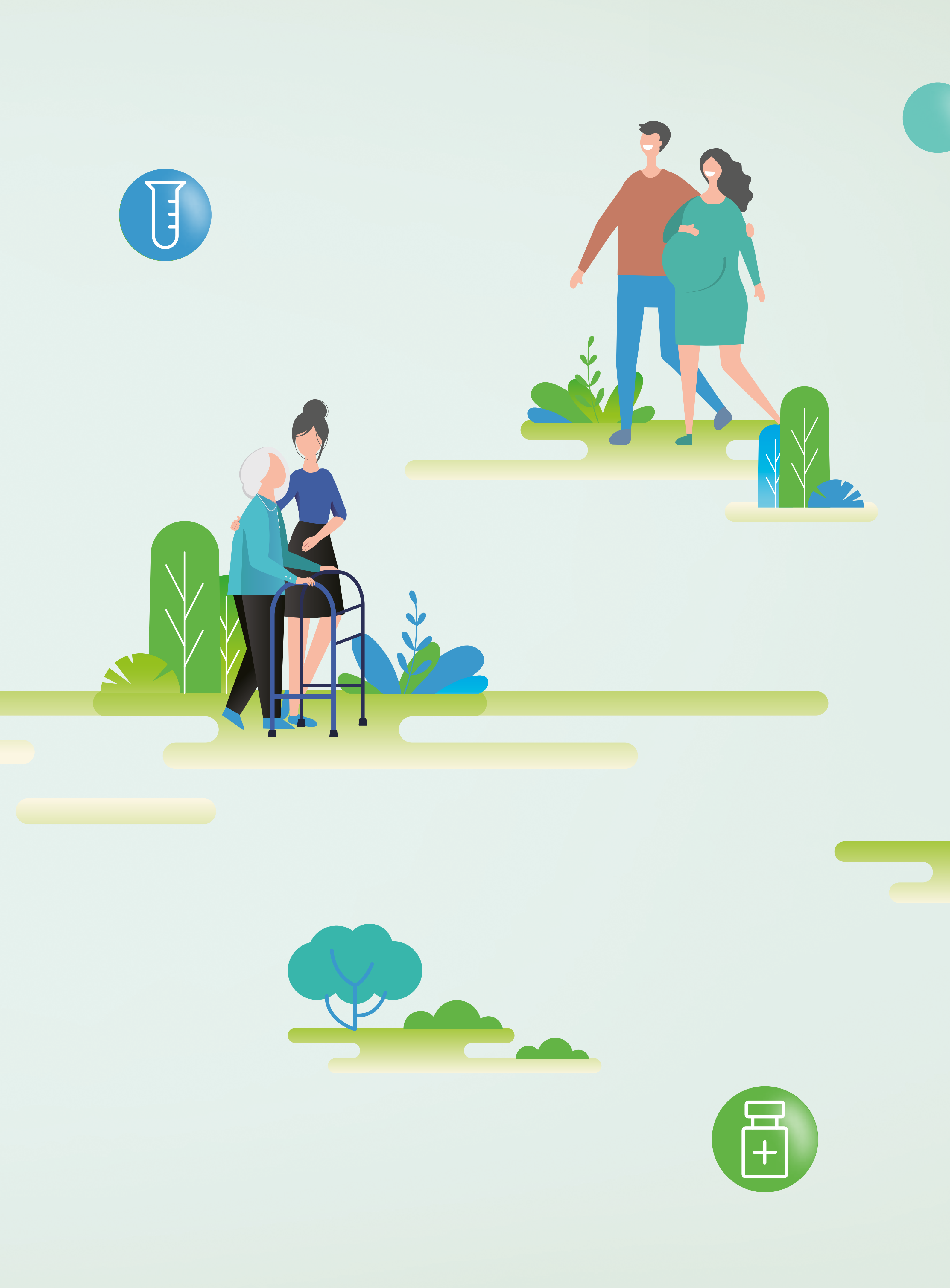
Year-on-year growth in profit for the year of

12.93%

ALL FOR HEALTH

HEALTH FOR ALL

Adhering to the corporate mission of “All for Health, Health for All”, Sinopharm Group has always been devoting itself to be the “leader and consolidator of China’s pharmaceutical distribution industry”.



Chairman's Statement

Dear shareholders,

I would like to express my heartfelt gratitude to the shareholders and the community for your consistent support to the Group. In 2019, against the backdrop where macroeconomic policies emphasized stable growth, China's economy maintained steady growth. Many industries were faced with the challenges andopportunities of transformation and upgrade. Under the guidance and push of national policies, the pharmaceutical and healthcare industry also underwent profound changes.

Li Zhiming
Chairman & Executive Director

In the past few years, with the successive issue and implementation of policies such as the "Two-invoice System", "Zero Mark up for Drug Sales at Public Hospitals", "Negotiation for Medical Insurance Catalog", "Centralized Procurement of Drugs", and "Diagnosis Related Groups (DRGs)", the government departments' intention to "implement value-oriented strategic purchases of medical insurance" became very clear, and the supervision continued to tighten at the same time, exerting a broad and far-reaching impact on the entire pharmaceutical industry. As competition intensified, the prices of pharmaceutical and medical device products further declined, and the profit margin of traditional distribution business was also under pressure. Meanwhile, these policies also brought about development opportunities as industry concentration continuously raised and leading enterprises became increasingly competitive. Business scale and efficiency have become the core competitiveness for the survival and development of pharmaceutical distribution companies in the future.

Faced with the challenges and opportunities from intensified changes in the industry and intensive transformation of the market, the Group, with the great support of the SASAC, CNPGC and shareholders and the leadership of the Board, continuously optimized its corporate development strategy and accelerated the overall transformation and upgrade of its business, and improved its operating quality, thus achieving satisfactory annual results in 2019. With the continuous efforts and dedication of the Company's management and all employees, Sinopharm closely focused on the three core businesses of "pharmaceutical distribution, pharmaceutical retail and medical devices" to alleviate the pressure brought by policy changes. We undauntedly explored new approaches to continually overcome new challenges, and created a one-stop, integrated service system through top-down design and model innovation based on our strategic planning and development strategy, achieving rapid growth for various businesses. For the year 2019, the Group's business revenue exceeded RMB420 billion and the net profit attributable to parent Company reached RMB6.253 billion. The Group's business structure was further diversified, further consolidating its core competitive advantage to adapt to the new situation.

Giving full play to the leading role and supervisory functions of a professional and highly-capable Board and special committees, Sinopharm carefully formulated the Company's development plans and pro-actively built an internal control and governance system that was in line with the Company's development targets. In 2019, the Group continued to improve system construction, strengthen risk management and control, focus on safety and quality, fulfil social responsibilities, and step up efforts to complete the Company's tasks to improve quality and efficiency, so as to consolidate the business foundation for long-term and high-quality development of the Company and effectively foster the transformation and upgrade of the comprehensive service capabilities of the supply chain.

The outstanding performance of Sinopharm has also been highly recognized by the general public. The Group won the "Best Listed Company" award at both the 9th China Securities "Golden Bauhinia" awards and the "2019 China Financial Market Awards". It ranked 25th in the "Fortune China 500" in 2019, and ranked 32nd in the "Top 100 Hong Kong Listed Companies" in 2019. These awards and rankings demonstrate Sinopharm's achievements in business development and social value and other aspects.

2020 marks the closing of the implementation of the Group's last five-year strategy, and sets the tone for its next five-year plan. Faced with an increasingly complicated market environment, the Board of the Company will firmly grasp the strategic opportunities of building a "Healthy China", thoroughly research and evaluate the industry development trends and opportunities, make proper strategic plans based on the advantages and disadvantages of the Group, and continue to promote the supply chain innovation and digital transformation, so as to lay a solid foundation for the high-quality development and core competitiveness enhancement of the Company.

At the beginning of 2020, China encountered a sudden outbreak of "novel coronavirus pneumonia" pandemic, which put people's lives in grave danger and affected the social economy. "All for Health, Health for All" has always been the corporate culture of Sinopharm. As a central and local reserve enterprise, Sinopharm leveraged the superior network of its nationwide pharmaceutical distribution business to actively coordinate various resources to perform the tasks of emergency collection, storage and allocation of pharmaceutical and protective supplies as instructed by central and local governments, effectively supporting the smooth progress of combatting the pandemic nationwide.

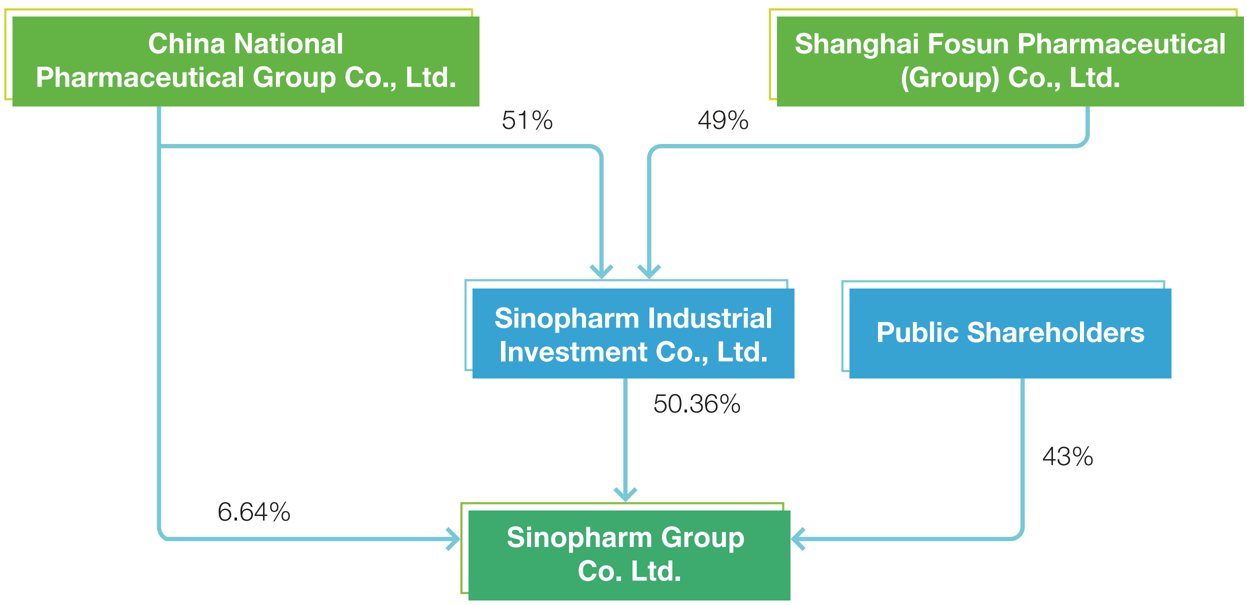
The impact of the pandemic on economic activities is temporary. The long-term positive development trend of China's pharmaceutical distribution industry will not change, neither will the business fundamentals of the Group. We believe that under the leadership of the Board, with the efforts of the management team and all employees, and by focusing on the key tasks of "stabilising growth, increasing efficiency, fostering reform, promoting innovation, and controlling risks", Sinopharm will continue to leverage the Group's competitive advantages, achieve the mid and long term business development goals, contribute to China's pharmaceutical system reform, and create value for shareholders. We will also continue to make relentless efforts to build a world first-class comprehensive medical service company with global competitiveness. Once again, I would like to thank the shareholders and people from all walks of life for your long-term support and help to Sinopharm.

Li Zhiming
Chairman

Shanghai, the People's Republic of China
29 March 2020

Shareholding Structure of the Company

As at the date of this report, the simplified structure of the Company was as follows:



Management Discussion and Analysis

Liu Yong
President & Executive Director

Industry Overview

Stable macro economy with transformation of economic structure

In 2019, China's economy entered into a stage of structural transformation and upgrade, facing a complex and changing domestic and international environment. The general slowdown in the growth of the global economy and international trade, and the gradual escalation of China-US trade friction in the second half of 2019 have affected China's "three drivers" of the economic growth, i.e. consumption, investment, and net exports, to varying degrees.

With the focus of macro policies emphasizing stable growth, China's gross domestic product (GDP) has maintained a steady growth of more than 6% in 2019. China's economy continued to develop healthily with gradual progress of industrial structure adjustment and remarkable results of transformation and upgrade. At the same time, however, it was still faced with the practical issues of structural transformation of the industries and slowing growth of economy.

Ongoing pharmaceutical reform with intensive transformation of distribution industry

With the continuously stable development of China's society and economy, the standard of medical and healthcare services has improved. However, the people's demand for high-quality medical services has also further increased. The size of the pharmaceutical market has grown at a speed higher than that of China's macro economy. Under the national policy of "promoting reform, making structural adjustments and improving living standards", the reform of the healthcare security system continued to make further headway in 2019. With intensive releases of policies and reform measures, the landscape of the pharmaceutical industry has entered a stage of rapid reconstruction. The completion of the "2019 Negotiation for the Medical Insurance Catalog", the implementation and expansion of the "Centralized Drug Procurement" policy and the second round of bidding, and the gradual implementation of the "Diagnosis-Related Groups (DRGs)" and "Centralized Procurement of Medical Devices" policies were all aimed at further reforming pharmaceutical industry's pricing mechanism, optimizing the medical insurance payment structure, improving the domestic healthcare security system, completing the healthcare security system, and enhancing the ability of ensuring provision of basic medical products.

In recent years, a series of policies have been issued and implemented around the reform of the medical insurance system in China successively to further optimize the distribution mechanism of medical insurance expenditure, imposing great challenges while bringing new opportunities to the medical distribution industry. Among these policies, the implementation and expansion of policy measures such as "Centralized Procurement of Drugs" and"Building Hospital Consortium and Hospital Community" continuously drove the reduction of procurement prices, reduced the sales volume of certain varieties, adjusted the product channels, squeezed the intermediate charges, and put pressure on the gross profit margin of the distribution industry. Consequently, the gross profit margin of the Group's distribution business during the Reporting Period decreased compared to the same period last year. At the same time, the accelerated implementation of policies has also driven the rapid intensive transformation and the further heightened concentration of distribution industry, eliminating incompetent players in the inferior distribution industry and underscoring the competitive advantages of leading enterprises. The ongoing optimization of the structure of the pharmaceutical distribution business resulted in rational allocation of resources, promoted the orderly development and competition of the industry, and optimized the overall operating efficiency of the industry. During the Reporting Period, the Group proactively dealt with the impact of the "Centralized Drug Procurement" policy, took a wide variety of measures to increase the sales and market shares of bid-winning products, thereby effectively offsetting the negative impact of the decline in distribution profit margins. In addition, the gradual emergence of new market demands such as wholesale-retail coordinated development and drug-device integrated medical care has also brought more development opportunities for the business optimization and continuous high-quality development of distribution companies.

Business Review

In 2019, the healthcare system dived into the key stage of reform, the landscape of the pharmaceutical industry has ushered in a stage of rapid reshaping. The Company focused on the overall strategy of the coordinated development of the three main businesses – "pharmaceutical distribution, pharmaceutical retail, and medical devices", in order to resolve the pressure brought by policy changes. The Company seized the opportunities arising from increased market concentration and actively took advantage of the coverage of Sinopharm's terminal network and the synergy of "Wholesale-retail integration", achieving a continuous increase in business volume and market share. Meanwhile, the Group has also improved the network layout of the medicine and medical devices businesses through mergers and acquisitions, advanced the construction of information systems and modern logistics facilities, continuously promoted the "drug-device synergetic development", and significantly enhanced the Group's overall comprehensive medical service capabilities, thereby further consolidating its leading position and competitive advantage in the comprehensive medical services industry.

During the Reporting Period, by actively promoting business growth and enhancing corporate governance and operating compliance management, the Group achieved an annual operating revenue of RMB425,272.73 million, representing a year-on-year increase of 23.44%.

Market share continuously increasing while maintaining solid advantages as leader in the distribution business

In the past two years, regulatory policies such as “Centralized Procurement” and “Two-invoice System” have imposed a profound impact on the pharmaceutical distribution industry. Tightly seizing the historical opportunity of structural reform in the distribution industry, the Group comprehensively improved the operational efficiency and service capabilities of the distribution business, and continued to tap the advantages of integrated operations and resource coordination.

During the Reporting Period, the Group integrated resource allocation, focused on improving and optimizing the logistics system, implemented the upgrade and transformation of the information system, and strengthened the development and layout of innovative products, so as to build the core competitiveness of innovative services and build a unified national business management and service platform to further enhance the service capabilities and business adhesiveness to the upstream and downstream companies and thereby enhancing their loyalty towards the Group. According to the results of the first-round implementation of centralized drug procurement, the Group has obtained distribution rights in all 11 pilot cities, with exclusive rights to distribute certain products in each city. This further demonstrated the advantages of the Group’s distribution network, driving a significant increase in market share and distribution volume of the Group.

In addition, the Group further extended its leading advantages in distribution networks to strengthen its influence in core regions. Leveraging the established integrated pharmaceutical supply chain and advanced supply chain management model, it has further promoted the penetration of the distribution network and strengthened the coverage of and ability of serving medical terminals such as secondary and tertiary hospitals, private hospitals, community health centres and township health centres. In 2019, the Group successfully acquired 100% equity interests of Anhui Pharmaceutical (Group) Co., Ltd. (安徽省醫藥(集團)股份有限公司) and 70% equity interests of Guizhou Yitong Pharmaceutical Co., Ltd. (貴州意通醫藥股份有限公司) respectively, effectively strengthening the business networks in Anhui and Guizhou provinces, and achieving a leap in market share in the relevant region.

As at 31 December 2019, the Group’s revenue from pharmaceutical distribution business has reached RMB337,316.63 million, representing a year-on-year increase of 20.02%, achieving rapid growth in the pharmaceutical distribution segment and continuous increase in market share.

Business structure of pharmaceutical distribution segment	**Proportion of total revenue of pharmaceutical distribution business in 2019**	Proportion of total revenue of pharmaceutical distribution business in 2018	Change
Direct sales to hospitals and medical institutions	77.17%	76.65%	+0.52 p.p
Direct sales to retail pharmacies	13.93%	12.85%	+1.08 p.p
Provincial and national distribution	8.90%	10.51%	-1.61 p.p

Professional pharmacies rapidly developing under optimization and reinforcement of retail layout

Affected by the issuance and implementation of the new Drug Administration Law and a variety of reform policies, the domestic pharmaceutical retail market is undergoing a key stage of continuous transformation and upgrade. The retail industry is facing new market opportunities and regulatory challenges. Guided by the strategy of "Wholesale-retail integration", the Group actively improved the construction of provincial platforms, implemented unified standards and chain certification system, facilitated the overall upgrade of retail brands and promoted the sustained and rapid development of the pharmaceutical retail business. For the year of 2019, the Group's revenue from pharmaceutical retail business amounted to RMB19,803.29 million, representing a year-on-year increase of 33.77%.

To further improve the capabilities of serving end customers and tap new pharmaceutical retail business growth opportunities, by making full use of the advantages of the distribution supply chain system and the accumulated hospital customer resources, the Group strove to build a leading professional pharmacy system, so as to achieve the coordinated development of traditional pharmacies and professional pharmacies. By developing a complete professional talent training system, the Group aimed at improving retail professional capabilities and digitalization, and strengthening retail terminal service capabilities and business coverage.

As at 31 December 2019, Sinopharm Holding Guoda Drugstore Co., Ltd., a subsidiary of the Group, has set up pharmacies covering 19 provinces, municipalities and autonomous regions across the country, with retail pharmacies amounted to 5,021. The Group also has 1,183 professional pharmacies with a network covering 30 provinces, municipalities and autonomous regions. With the scale of retail network maintaining its leading position in the industry, the Group achieved fast growth for all-channel pharmaceutical retail business during the Reporting Period.

Medical devices business developing rapidly with accelerated integration of network layout

Medical devices business is one of the Group's important strategic businesses to achieve high-quality and sustainable development. The Group actively seized the great opportunity of rapid development of the medical devices industry to drive the rapid development of the medical devices distribution business. After successfully acquiring China National Scientific Instruments and Materials Co. Ltd., the Group vigorously promoted business integration, strengthened the resource coordination, and adopted professional operation methods to further improve the medical devices network layout and promote the rapid development of the medical devices segment.

The successive formulation and implementation of the policies such as "Unified Coding of Medical Consumables", "Centralized Procurement of Medical Devices" and "Two-invoice System for Medical Devices" in 2019 indicated that the regulatory policies for medical devices distribution will follow the regulatory direction of the pharmaceutical industry, which will impose similar challenges and changes. To effectively cope with the potential impact of the policies, the Group actively deepened its strategic cooperation with upstream and downstream companies as well as leading medical devices companies worldwide. Meanwhile, the Group focused on exploring professional comprehensive service solutions to rapidly advance the management of medical consumables supply chain and other innovative medical services. These strategies continued to drive the development of the Group's medical devices business, ensuring the Group's leading position in the Chinese medical device industry, and further promoting the Group's transformation and upgrade into a comprehensive medical service provider. During the Reporting Period, the sales revenue from the medical devices segment increase by 40.06% compared with the same period last year.

Improving support capability of the headquarters and strengthening management and control of business risk

In 2019, the Group established a global procurement and supply chain service center, which focused on service innovation to make an all-out effort to promote business optimization and reform and create Sinopharm's turnkey solution for the supply chain. By building a multi-dimensional whole industrial chain service platform for pharmaceutical industry, the Group is dedicated to comprehensively improving its support capabilities for various business segments, so as to achieve unified business management and resource allocation of the Group and further improve the coordination and synergy of retail terminal and medical institution channels, retail business and distribution business, as well as online business and offline business, thereby building a digital intelligent supply chain system.

In addition, the Group also focused on promoting financial innovation in the supply chain, deepened the cooperation with financial institutions, and effectively used comprehensive funding channels such as equity and debt to further optimize the Company's expense structure and profitability. To continue to improve the quality of business operations, the Group conducted comprehensive risk inspection and identification, strengthened management and control of receivables and cash flows, and improved the Group's credit and receivables management system, further strengthening corporate governance and compliance management. For the year of 2019, the Group's net operating cash inflow amounted to RMB18,777.10 million, representing an increase of RMB15,123.36 million compared with the same period last year, effectively demonstrating the Group's business concept of high-quality and sustainable development.

Future Plan

In early 2020, the "novel coronavirus pneumonia" pandemic broke out, and the Chinese government adopted stringent prevention and control measures to curb the spread of the pandemic, including measures such as extending holidays, devoting nationwide medical resources to combating the pandemic in key areas and reducing turnover and gathering. As such, part of the social production and operation activities (including normal sales of drug at medical institutions and retail pharmacies) was significantly affected. In addition, the Group was also restricted in recognition of suppliers' rebate and product price reduction compensation. Based on the above factors, the Group expects that the operating results for the first quarter of 2020 will be affected, and has published profit warning announcement on the website of the Hong Kong Stock Exchange on 8 March 2020.

Although the pandemic has imposed temporary impacts on the upstream and downstream of the industry as well as Sinopharm, the Group believes with the gradual end of the pandemic, social production and operation will return to normal, relevant price reduction compensation and sales rebate will process as usual, and relevant financial indicators will recover gradually. In the battle against the pandemic, the Group went all out in ensuring the supply of anti-pandemic drugs and medical supplies, timely fulfilling the medical needs and completing distribution tasks of various regions and key pandemic-stricken areas, supporting the government and medical institutions to win this arduous war against pandemic, and fully demonstrating the Company's corporate mission and responsibility as a leader in the pharmaceutical industry.

In addition to the impact of the pandemic, various measures will be implemented in the coming years for the national healthcare system, and the market competition will further intensified. For the distribution industry, with the gradual reduction in the prices of drugs and medical devices, the growth rate of sales revenue and profitability in the pharmaceutical industry may continue to face pressure. In the future, it's expected that the impact of structural adjustment in the distribution industry will gradually manifest. As a leading enterprise in the pharmaceutical distribution industry, the Group will carefully study the industry trends, optimize the Group's principal businesses, accurately judge the situation and proactively address the challenges. The Company will fully explore its core competitive advantages and strengthen the Group's diversified business layout, focusing on developing one-stop, integrated supply chain service capabilities, so as to promote win-win development with upstream manufacturers and downstream end customers. In addition, the Group will select suitable targets for mergers and acquisitions in the pharmaceutical retail, medical devices and other business segments. Through the "dual drivers" of endogenous and external growth, the Group will actively promote the overall optimization and improvement of its business to minimize the negative impact of industry policies, fully explore incremental profit growth drivers, and comprehensively enhance the Company's business advantages.

Consolidating leading position in distribution business and making all-out effort to increase market share

With the accelerated implementation of policies, the pharmaceutical distribution industry is faced with negative factors and challenges such as declining industry growth and increasingly fierce market competition, but is also given new opportunities such as ascending market concentration, shifting marketing channels, and increased demand for innovation.

The Group will actively follow the policy direction, study the development trends, and enhance business synergy and resource allocation. The Group will strengthen the core competitiveness of the pharmaceutical distribution business and continue to increase market share through manifest scale effects and enhanced operational efficiency. The Group will simultaneously promote the penetration to lower-tier market of the distribution network (primarily covering the pilot counties and cities with consortium of health-care institutions), explore the demand of the lower-tier markets, continuously strengthen the strategic network layout of the pharmaceutical distribution business, rely on the resources of the upstream and downstream partners in the supply chain to accelerate the development of innovative services and obtain new profit growth drivers, and further consolidate the leading position in the industry.

Enhancing layout of retail business and promoting optimization and innovation of online business

Pharmaceutical retail business is a strategic segment for optimizing business structure. The Group will continue to implement the strategy of "Integrated Wholesale-retail Distribution", promote the construction of provincial retail platforms, and strengthen the standardization and systemization of retail brands and quality control. By strengthening cooperation with Walgreens Boots Alliance, Inc., (WBA), the Group introduced WBA's brand management and international advanced technique and experience to promote the transformation and upgrade of traditional retail pharmacies, while improving the network layout of professional pharmacies, focusing on the development of professional pharmacy systems with special pharmacies and severe chronic disease management centers at the core to achieve the coordinated development of the two businesses. In addition, the Group will also actively promote the digital transformation of the retail business, optimize the information technology platform, promote the "Internet + medical service" model, and seek new market space for the rapid and sustainable development of the retail business, ultimately build an integrated pharmaceutical retail terminal system with reasonable layout, comprehensive services, and leading expertise.

Promoting the transformation and upgrade of service capabilities and enhancing the synergetic advantage of medical device business

To adapt to the development trend of the medical device industry and effectively respond to the potential impact of "Centralized Procurement of Medical Devices", the Group will actively accelerate the integration of the device network layout and strengthen the intensity and stickiness of cooperation with upstream manufacturers, as well as focusing on exploring business innovation and the replication promotion thereof. The Group will vigorously develop related businesses such as supply chain solutions for centralized device delivery, and assist hospitals in achieving lean and compliant management of medical consumables and medical equipment. The Group will promote the efficiency improvement of the entire industry chain. In addition, the Group will take advantage of its network and channels to facilitate the "drug-device synergetic development". The Group will also improve lean management and strengthen quality control. At the same time, the Group will speed up the industrial layout by expanding the device OEM and manufacturing business, thereby further enriching the Company's device business and achieving professional and high-quality development of the device business.

Continuously improving governance capabilities and enhancing business operation efficiency

The Group will continue to optimize operation management and operation efficiency through in-depth integration construction of all businesses and regions, the promotion of digital transformation and the adoption of innovative information technologies and methods. Meanwhile, the Group will proactively focus on major asset risks and core nodes to enhance the management and control of receivables, inventory, and prepaid accounts, and emphasize the systematization and centralization of risk management to achieve improvement of both operating efficiency and quality.

In 2020, various policies in China's medical and health-care industry will continue to be intensively launched and extensively implemented, and their impact on the development of Company's business and even the entire industry will become more apparent in the future. However, the reform also creates opportunities. The Group will make full use of the valuable experience and advantages accumulated during the structural transformation stage of the pharmaceutical distribution industry, continue to utilize the Company's competitive advantages and synergies, focus on medical institutions and retail pharmacies, the two major players of the medicine market, and seize opportunities arising from the Company's march towards the mid-to-high end of the pharmaceutical value chain, so as to continuously enhance the profitability and market competitiveness of core businesses, achieve high-quality and sustainable development of the Company, and work unremittingly to build an internationally competitive intelligent pharmaceutical service ecosystem.

Financial Summary

The financial summary set out below is extracted from the audited financial statements of the Group for the Reporting Period which were prepared in accordance with the HKFRSs:

During the Reporting Period, the Group recorded a revenue of RMB425,272.73 million, representing an increase of RMB80,746.91 million or 23.44% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB10,620.07 million, representing an increase of RMB1,215.59 million or 12.93% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB6,252.54 million, representing an increase of RMB416.70 million or 7.14% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB2.11, representing an increase of 7.11% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB425,272.73 million, representing an increase of 23.44% as compared with RMB344,525.82 million for the twelve months ended 31 December 2018, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business. The Group's revenue grew faster than the average level of development of pharmaceutical market in China.

- Pharmaceutical distribution segment: during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB337,316.63 million, which accounted for 78.18% of the total revenue of the Group and represented an increase of 20.02% as compared with RMB281,049.36 million for the twelve months ended 31 December 2018. The increase was primarily due to a remarkable development of the pharmaceutical distribution business and the further expansion of its distribution network of the Group.

- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB19,803.29 million, which accounted for 4.59% of the total revenue of the Group and represented an increase of 33.77% as compared with RMB14,803.90 million for the twelve months ended 31 December 2018. The increase was primarily due to the growth of the retail pharmaceutical market and the expansion of network of the Group's retail pharmacy.

- Medical device segment:during the Reporting Period, the revenue from medical device of the Group was RMB69,293.54 million, which accounted for 16.06% of the total revenue of the Group and represented an increase of 40.06% as compared with RMB49,473.75 million for the twelve months ended 31 December 2018. The increase was primarily due to the acquisition expansion and business growth of the medical device business of the Group.

- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB5,037.13 million, representing an increase of 20.73% as compared with RMB4,172.09 million for the twelve months ended 31 December 2018.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB387,741.42 million, representing an increase of 23.76% as compared with RMB313,297.73 million for the twelve months ended 31 December 2018. The increase was primarily due to the increase in the sales revenue of the Group.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB37,531.30 million, representing an increase of 20.18% as compared with RMB31,228.09 million for the twelve months ended 31 December 2018. The gross profit margin of the Group for the twelve months ended 31 December 2018 and 2019 were 9.06% and 8.83%, respectively.

Other Income

During the Reporting Period, other income of the Group was RMB441.16 million, representing an increase of 6.62% as compared with RMB413.76 million for the twelve months ended 31 December 2018. The increase was primarily due to the increase in subsidies obtained by the Group from the central and local governments.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were RMB12,556.93 million, representing an increase of 21.09% as compared with RMB10,369.83 million for the twelve months ended 31 December 2018. The increase in selling and distribution expenses was primarily attributable to the Group's enlarged operation scale, business development and its expansion of the coverage of distribution networks through new set-ups and acquisitions of companies and businesses, etc.

Administrative Expenses
During the Reporting Period, the administrative expenses of the Group were RMB6,912.23 million, representing an increase of 25.27% as compared with RMB5,517.88 million for the twelve months ended 31 December 2018. The increase in administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth of the Group.

Operating Profit
As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB16,136.74 million, representing an increase of 14.71% from RMB14,067.97 million for the twelve months ended 31 December 2018.

Other Gains – Net
During the Reporting Period, the other net gains of the Group decreased from RMB81.83 million for the twelve months ended 31 December 2018 to RMB53.18 million. The decrease was primarily due to the increase in the provision for impairment of certain of non-current assets of the Group during the Reporting Period.

Other Expenses
During the Reporting Period, the other expenses of the Group amounted to RMB173.72 million during the Reporting Period was due to the increase of the provision for impairment of intangible assets.

Finance Costs – Net
During the Reporting Period, the finance costs of the Group was RMB3,143.46 million, representing an increase of 12.87% as compared with RMB2,785.03 million for the twelve months ended 31 December 2018. The increase was primarily due to the increase in financing costs of the Group.

Share of Profits and Losses of Associates
During the Reporting Period, the Group's share of profits and losses of associates was RMB876.38 million, representing an increase of 5.18% as compared with RMB833.20 million for the twelve months ended 31 December 2018.

Share of Profits and Losses of Joint Ventures
During the Reporting Period, the Group's share of profits and losses of joint ventures was RMB10.69 million, representing an increase of 7.22% as compared with RMB9.97 million for the twelve months ended 31 December 2018.

Income Tax Expenses
During the Reporting Period, the Group's income tax expenses were RMB3,139.74 million, representing an increase of RMB336.28 million as compared with RMB2,803.46 million for the twelve months ended 31 December 2018. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate decreased to 22.82% during the Reporting Period from 22.96% for the twelve months ended 31 December 2018.

Profit for the Year
As a result of the above-mentioned factors, the profit of the Group for the year of 2019 was RMB10,620.07 million, representing an increase of 12.93% as compared with RMB9,404.48 million for the twelve months ended 31 December 2018. The profit margin of the Group for the twelve months ended 31 December 2018 and 2019 were 2.73% and 2.50%, respectively.

Profit Attributable to Owners of the Parent
During the Reporting Period, profit attributable to owners of the parent was RMB6,252.54 million, representing an increase of 7.14% or RMB416.70 million from RMB5,835.84 million for the twelve months ended 31 December 2018.

Profit Attributable to Non-controlling Interests

During the Reporting Period, profit attributable to non-controlling interests for the Reporting Period was RMB4,367.54 million, representing an increase of RMB798.89 million from RMB3,568.64 million for the twelve months ended 31 December 2018.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB188,857.87 million, of which approximately RMB102,802.91 million were not yet utilized. Cash and cash equivalents of RMB39,191.97 million primarily comprise cash, bank savings and income from current operating activities.

Cash flow

The cash of the Group was primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for the year ended 31 December 2018 and 2019, respectively:

	2019 **RMB million**	2018 RMB million
Net cash generated from operating activities	**18,777.10**	3,653.74
Net cash used in investing activities	**(6,795.97)**	(5,907.62)
Net cash (used in)/generated from financing activities	**(13,084.57)**	10,318.52
Net (decrease)/increase in cash and cash equivalents	**(1,103.44)**	8,064.64
Cash and cash equivalents at the beginning of the year	**40,298.99**	32,240.80
Exchange differences	**(3.58)**	(6.45)
Cash and cash equivalents at the end of the year	**39,191.97**	40,298.99

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from collections from the sale of the products and services in its pharmaceutical distribution, retail pharmacy, medical device and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB18,777.10 million, representing an increase of RMB15,123.36 million from RMB3,653.74 million for the twelve months ended 31 December 2018. The increase was primarily contributed to the fast development in all business segments and continuous increase in market share during the Reporting Period.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB6,795.97 million, representing an increase of RMB888.35 million as compared with RMB5,907.62 million for the twelve months ended 31 December 2018.

Net cash used in financing activities

During the Reporting Period, the net cash outflow from financing activities of the Group was RMB13,084.57 million, which was primarily attributable to the increase in the amount of loan repayment through banks and other financial institutions during the Reporting Period. The net cash generated from financing activities of the Group for the twelve months ended 31 December 2018 was RMB10,318.52 million.

Capital Expenditure

The Group's capital expenditures were primarily utilized for the development and expansion of distribution channels, upgrading of its logistic delivery systems and the improvement of the level of informatization. The Group's capital expenditures amounted to RMB3,865.87 million and RMB4,867.89 million for the year ended 31 December 2018 and 2019, respectively.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its operation plans (including changes in market conditions, competition and other factors). As the Group continues to develop, it may incur additional capital expenditure. The Group's ability to obtain additional funding in future is subject to a variety of factors, including its future operational results, financial condition and cash flows, economic, political and other conditions in the mainland China and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings, etc.

Capital Structure

Fiscal resources

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of corporate bonds and super short-term commercial papers, the Group obtained approximately RMB4 billion and RMB31.5 billion respectively for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB.

As at 31 December 2019, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in Hong Kong Dollars ("**HKD**") and small amount denominated in the United States Dollars ("**USD**") and Euro ("**EUR**") and Australian Dollars ("**AUD**").

Indebtedness

As at 31 December 2019, the Group had aggregated banking facilities of RMB188,857.87 million, of which RMB102,802.91 million were not utilized and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2019, RMB42,476.72 million will be due within one year and RMB8,372.85 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

As at 31 December 2019, the Group's gearing ratio was 71.49% (31 December 2018:71.04%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2019.

Foreign Exchange Risks

The Group's operations are mainly located in the PRC and most of its transactions are denominated and settled in RMB. However, the Group is exposed to foreign exchange risks to some extend on certain cash and cash equivalents, prepayments and other receivables, trade payables and accrued expenses and other payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group has no corresponding hedging arrangements.

Pledge of Assets

As at 31 December 2019, part of the Group's borrowings and bills payable were secured by bank deposits of RMB10,653.63 million, prepaid land lease payments with book value of RMB62.14 million, investment properties with book value of RMB0.03 million, properties, plant and equipment with book value of RMB83.14 million and trade and bills receivables with book value of RMB1,038.36 million.

Major Acquisitions and Disposals

During the Reporting Period, the Group had no major acquisitions and disposals with respect to subsidiaries, associates and joint ventures.

Major Investment

During the Reporting Period, the Group did not make any major investment.

Going Concern

Based on the current financial forecast and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a going concern basis.

Contingent Liabilities and Material Litigations

As at 31 December 2019, the Group neither had any material contingent liability, nor had any material litigation.

Human Resources

As at 31 December 2019, the Group had a total of 93,764 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of the talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group conducts periodic performance reviews on its employees and adjusts their salaries and bonuses accordingly. Details of the employee benefit expenses for 2019 are set out in Note 11 to the Consolidated Financial Statements. In addition, the Group has provided training programs to employees with different functions.

For remuneration and performance, the Group has established a normalised salary management system based on the principle of "performance-oriented compensation, prioritizing efficiency and considering fairness". The Group implements top-down performance assessment to establish a compensation system with position and ability as basis and performance as the cornerstone. The employee remunerations include basic salary, performance remuneration, bonus and piece rate wage. Remuneration is adjusted based on factors such as the results of the corporation, work performance and capability as well as job responsibilities of employees.

The Group follows the performance-oriented principle while giving consideration to balance. The Group adopts a diversified structure and makes dynamic adjustments. For the value created, we distribute the incremental value. We share benefits and risks with our employees. Based on the principle of aligning with market benchmarks and international standards, the Group has adopted a combination of short-term and medium- and long-term incentives to determine Directors' remuneration incentive policies, and designed a compensation structure comprising "basic remuneration, performance-based remuneration, and medium- and long-term incentives". The basic annual salary is the basic fixed income; the performance-based annual salary is the immediate floating income based on the completion of the annual performance goals, which is paid after evaluation; the "medium and long-term incentive" is the share incentive scheme, which is contingent on the excellent performance in the medium and long term, designed to bind interests and share risks with shareholders.

Compliance with Laws and Regulations

The Group must comply with a number of laws and regulations, which mainly include the Company Law of the PRC, the Contract Law of the PRC, the Drug Administration Law of the PRC, domestic and foreign securities laws, regulations and exchange rules such as the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Securities and Futures Ordinance (Cap. 571) etc., as well as other applicable regulations, policies and regulatory legal documents promulgated pursuant to the aforementioned laws, regulations and rules.

Through various measures such as internal control, compliance management, business approval procedures and employee training, the Group ensures the compliance with applicable laws, regulations, and regulatory legal documents (especially those that have significant impact on the main business). Whenever there are any changes to the applicable laws, regulations, and regulatory legal documents, the Group will notify the relevant employees and the operating team from time to time.

During the Reporting Period, the Directors of the Company are not aware of any non-compliance with the relevant laws and regulations which would have a material impact on the Group.

Relationship with Employees, Suppliers and Customers

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2019, the Group adhered to the talent-oriented corporate culture and played an active role in cultivating first-class talents. It also attached great importance to the exploration, management and development planning of human resources, striving to create a harmonious working environment as well as a remuneration and benefit system with market competitiveness for its employees, so as to ensure the Group's advantages in terms of human resources for future development. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of the Group's brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2019, there was no significant and material dispute between the Group and its suppliers and/or customers.

Subsequent Events

On 23 January 2020, the Company placed and issued 149,000,000 new H shares at the price of HK$27.30 per H share (the "**Placing Shares**"). The Placing Shares represent 11.1% and 4.8%, respectively, of the total issued H share capital and the total issued share capital of the Company as enlarged by the issue of the Placing Shares. The actual net proceeds of the placing were HK$4,027 million, equivalent to RMB3,567 million, intended to be used for the expansion of pharmaceutical distribution, retail network and medical device business as well as improvement of working capital after the expansion. Through the placing, the Group further optimized the shareholder structure and brought in a number of high-quality strategic investors, which would play a positive role in assisting the Company in further improving its strategies and governance capabilities and in fulfilling its social responsibilities.

As a large-scale central enterprise in the pharmaceutical and health-care industry and a central emergency reserve enterprise, the Group shoulders the historical mission and social responsibility for ensuring drug supply during the special period. The Group fully cooperated with the Chinese government and regulatory authorities in the logistics and distribution of various emergency medical supplies. Following the outbreak of the novel coronavirus pneumonia virus in 2020, the Group immediately took actions to prepare medical reserve and ensure medical supplies, and preserved in the front line of pandemic prevention and control to ensure medical supplies, fully demonstrating the Group's responsibilities and capabilities as a central state-owned pharmaceutical enterprise. The Group has always placed social responsibility indicators such as strategic mission, operational safety, quality system, customer satisfaction, energy conservation and environmental protection as the Group's most important goals and development direction. The Company will give full play to its value, use innovative and efficient working methods, and carefully and conscientiously carry out the operations and back-office support work to ensure the orderly operation of the Company's various businesses while fully ensuring the strategic emergency supplies.

In accordance with the requirements of the Reply of the State Council on the Adjustment of the Notice Period for General Meetings and Other Matters Applicable to Overseas Listed Companies (Guo Han [2019] No. 97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函(2019)97號)), due to the Company's completion of the H Share Placing in January 2020 which resulted in increased registered capital and other reasons, and based on the actual condition of the Company, the Board resolved on 29 March 2020 to make amendments to the Articles of Association of the Company. The proposed amendments to the Articles of Association are subject to the approval of the shareholders' general meeting of the Company by way of a special resolution. In particular, the proposed amendment to Article 91 of the Articles of Association of the Company is subject to the approval of H shareholders and domestic shareholders by way of a special resolution at the respective class meetings. Given the proposed amendments to the Articles of Association, the Board also resolved to make certain amendments to the Rules of Procedure of the General Meeting of the Shareholders of the Company on 29 March 2020. The proposed amendments to the Rules of Procedure of the General Meeting of the Shareholders are subject to the consideration and approval of the shareholders at the shareholders' general meeting of the Company by way of an ordinary resolution.

In order to meet the Company's operating needs and reduce financial costs, the Board resolved on 29 March 2020 to propose the issuance of corporate bonds of no more than RMB15 billion (inclusive) in China, and propose to the shareholders' general meeting to authorize the Board and to approve the authorization by the Board to the Chairman and executive Director Li Zhiming to act as the authorized person for such issuance and handle specific matters in relation to the issuance and listing on behalf of the Company in accordance with the resolution of the shareholders' general meeting and the authorization of the Board. The proposed issuance of corporate bonds is subject to shareholders' approval by way of a special resolution and approval from relevant Chinese regulatory authorities.

The Company is committed to upholding high standards of corporate governance which, it believes, is crucial to the development of the Company and protection of the interests of the shareholders of the Company. The Company has adopted sound governance and disclosure practices, and will continuously improve these practices and create a highly ethical corporate culture.

Composition of the Board

As at the date of this report, the board of the directors of the Company (the "**Board**") consisted of 15 directors (the "**Director(s)**"), including three executive Directors, Mr. Li Zhiming, Mr. Yu Qingming and Mr. Liu Yong; seven non-executive Directors, namely Mr. Chen Qiyu, Mr. Ma Ping, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Guan Xiaohui and Ms. Dai Kun; and five independent non-executive Directors, namely Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Chen Fangruo. To the knowledge of the Company, there is no financial, business and family relationships or material/relevant relationships among members of the Board or between the Chairman and the President.

Biographical details of the Directors are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" of this annual report.

Major Responsibilities of the Board

The Board is the core of the Company's corporate governance framework and it takes several roles in representing interests, supervising resources and coordinating interests. The main functions of the Board are strategic planning, guidance on operation management and inspection and supervision. The responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed annual budgets and final accounts of the Company, assessing the performance of the Company and overseeing the work of senior management, formulating and reviewing the corporate governance policies and practices of the Company.

The Board shall represent the long-term interest of the Company and the interest of shareholders and related party when making scientific and strategic decisions, be effectively supervised and evaluated when controlling corporate resources and conducting operation management and maintain effective stimulation and supervision over the senior management when duly delegating its power to the senior management. The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. Being different from the function and duties of the Board, the senior management of the Company are mainly in charge of the Company's production, operation and management; organizing the implementation of the Company's annual business plan and investment proposal; drafting plans for the establishment of the Company's internal management structure; drafting plans for the establishment of the Company's branch offices; drafting the Company's basic internal management system and formulating basic rules and regulations of the Company; within the authority delegated by the Board, appointing, changing or recommending shareholder representatives, directors and supervisors in its holding subsidiary or joint stock subsidiary; deciding on the establishment of the Company's branches; and other powers delegated by the Board.

The Company has separated the roles of Chairman and President. The Chairman is responsible for managing the Board, steering the Board to formulate overall strategies and business development plans, ensuring the receipt of sufficient, complete and reliable information by each Director and the receipt of reasonable explanations for all the issues raised in the Board meetings. The President is responsible for managing the business of the Company and implementing policies, business objectives and plans formulated by the Board, and is accountable to the Board for the Company's overall operation.

Mr. Li Zhiming has served as the Chairman of the Company since March 2017. Mr. Liu Yong has served as the President of the Company since November 2017.

The Board has established an audit committee, a remuneration committee, a nomination committee, a strategy and investment committee and a legal and compliance committee. Please see below for the composition and responsibilities of each special committee. Each committee shall provide its recommendations to the Board based on its respective terms of reference. The decisions of the Board on such recommendations shall be final, unless otherwise clearly stated in the terms of reference of these committees.

During the Reporting Period, the Board made a lot of efforts in improving the corporate governance system of the Company and enhancing the corporate governance standards, including amending relevant internal management rules in accordance with the requirements of relevant laws, regulations and regulatory rules as amended from time to time, as well as the practice of the Company; monitoring and organizing the Directors and company secretary to participate in relevant training courses; regularly reviewing the Company's compliance with the domestic and overseas regulatory requirements and its implementation of various internal corporate governance rules and policies, and reviewing the Company's compliance with the Corporate Governance Code and the disclosures in the Corporate Governance Report.

Changes of Directors, Supervisors and Senior Management

(1) On 11 January 2019, as considered and approved by the Board, Mr. Wen Deyong was elected as a member of the Strategy and Investment Committee and a member of the Remuneration Committee of the fourth session of the Board for a term of office equal to that of his directorship; Ms. Guan Xiaohui was appointed as a member of the Audit Committee, subject to the approval by the shareholders at the general meeting of her appointment as a Director.

(2) On 11 January 2019, as considered and approved by the Board, Ms. Wang Jie was appointed as the Company's vice president.

(3) On 8 March 2019, as considered and approved at the 2019 first extraordinary general meeting of the Company, Ms. Guan Xiaohui was appointed as a non-executive Director of the fourth session of the Board for a term from 8 March 2019 to 20 September 2020.

(4) On 22 March 2019, Mr. Wang Qunbin resigned as a non-executive Director, a member of the Nomination Committee and a member of the Strategy and Investment Committee of the fourth session of the Board due to work arrangements.

(5) On 22 March 2019, as considered and approved by the Board, Mr. Deng Jindong and Mr. Tan Wee Seng were appointed as members of the Remuneration Committee of the fourth session of the Board for a term of office equal to that of their directorship.

(6) On 27 June 2019, as considered and approved at the 2018 annual general meeting, Ms. Dai Kun was appointed as a non-executive Director of the fourth session of the Board for a term from 27 June 2019 to 20 September 2020.

(7) On 27 June 2019, as considered and approved by the Board, Ms. Guan Xiaohui was appointed as a member of the Strategy and Investment Committee of the fourth session of the Board of the Company for a term of office equal to that of her directorship; Ms. Dai Kun was elected as a member of the Nomination Committee of the fourth session of the Board of the Company for a term of office equal to that of her directorship.

Board Meetings and General Meetings

The Board convened twelve Board meetings, seven of which were by voting through electronic means of communications, and two general meetings during the Reporting Period. All Directors actively participated in the affairs of the Company.

During the Reporting Period, the attendance record of each Director at the Board meetings and general meetings is as follows:

Directors	Board meetings Attendance in person/No. of meetings held	General meetings Attendance in person/No. of meetings held
Executive Directors		
Mr. Li Zhiming	12/12	2/2
Mr. Yu Qingming	11/12	1/2
Mr. Liu Yong	10/12	2/2
Non-executive Directors		
Mr. Chen Qiyu	12/12	2/2
Mr. Wang Qunbin (resigned)	1/2	1/1
Mr. Ma Ping	12/12	2/2
Mr. Hu Jianwei	11/12	1/2
Mr. Deng Jindong	12/12	1/2
Mr. Wen Deyong	11/12	2/2
Ms. Guan Xiaohui	11/11	2/2
Ms. Dai Kun	8/8	0/0
Independent Non-executive Directors		
Mr. Yu Tze Shan Hailson	12/12	1/2
Mr. Tan Wee Seng	12/12	2/2
Mr. Liu Zhengdong	11/12	2/2
Mr. Zhuo Fumin	12/12	2/2
Mr. Chen Fangruo	10/12	1/2

Note: The Directors of the Board who did not attend the meeting in person have all entrusted proxies to attend the meeting, which was not counted into their attendance record.

At Board meetings, the Company's senior management reported the information of business activities and data of development of the Company to all Directors on a timely basis. If any Director has conflict of interests in any proposed resolution to be considered at the Board meeting, such Director shall abstain from voting on such resolution. The Chairman also met with the independent non-executive directors on a regular basis for their opinions on the Company's business development and operations.

Training for Directors

The management of the Company has provided members of the Board with appropriate and sufficient information including the financial briefings so as to update them with the latest operations and developments of the Company and facilitate their discharge of duties. All Directors have participated in continuing professional development by attending training or reading relevant materials to broaden their knowledge base and sharpen their skills.

The training record of Directors during the Reporting Period is as follows:

Directors	Special training (Note)
Executive Directors:	
Mr. Li Zhiming	✓
Mr. Yu Qingming	✓
Mr. Liu Yong	✓
Non-executive Directors	
Mr. Chen Qiyu	✓
Mr. Wang Qunbin (resigned)	✓
Mr. Ma Ping	✓
Mr. Hu Jianwei	✓
Mr. Deng Jindong	✓
Mr. Wen Deyong	✓
Ms. Guan Xiaohui	✓
Ms. Dai Kun	✓
Independent Non-executive Directors	
Mr. Yu Tze Shan Hailson	✓
Mr. Tan Wee Seng	✓
Mr. Liu Zhengdong	✓
Mr. Zhuo Fumin	✓
Mr. Chen Fangruo	✓

Note: On 22 March 2019, all Directors of the Company attended the training on the management of inside information and connected transactions, non-competition agreements, and a review of Directors' responsibilities provided by the Company's Hong Kong legal adviser DLA Piper.

In addition, Directors newly-appointed during the Reporting Period attended the training for new directors provided by DLA Piper. The company secretary Mr. Wu Yijian completed the training on the 51th joint member ECPD seminar provided by The Hong Kong Institute of Chartered Secretaries during the Reporting Period.

Audit Committee

As at the date of this report, the audit committee of the Company (the "**Audit Committee**") comprised five Directors, including three independent non-executive Directors, namely Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin and two non-executive Directors, namely Mr. Deng Jindong and Ms. Guan Xiaohui, with Mr. Tan Wee Seng serving as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to inspect, review and supervise the Company's financial information and reporting process for financial information. These responsibilities include, among others:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- formulating and implementing policies on the engagement of an external auditor to supply non-audit services; and
- monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in the statements and reports.

During the Reporting Period, four meetings were held by the Audit Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance in person/No. of meetings held
Mr. Tan Wee Seng	4/4
Mr. Deng Jindong	4/4
Ms. Guan Xiaohui	4/4
Mr. Liu Zhengdong	4/4
Mr. Zhuo Fumin	4/4

During the Reporting Period, the Audit Committee reviewed the Group's 2018 annual report, 2019 interim results announcement, 2019 interim report, 2019 first quarterly results and 2019 third quarterly results, and received the auditor's report on the audit results. The Audit Committee also reviewed the resolutions on audit fees for 2018, appointment of auditors for 2019, internal audit work plans for 2019, and compliance and overall risk management report for 2019.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019 and believes that the Company has complied with all applicable accounting standards and regulations and made sufficient disclosures. The audit committee has reviewed all material internal control rules, including the financial and operational and compliance controls, as well as risk management in 2019. The audit committee was satisfied with the effectiveness and sufficiency of the internal control mechanism in its operations. In addition, the audit committee has also reviewed the adequacy of resources, qualification and experiences of employees in relation to the accounting and financial reporting function of the Company and the adequacy of training courses taken by the employees and the relevant budgets. The Audit Committee has also reviewed the 2019 annual results announcement and the 2019 annual report of the Company.

The Audit Committee has reviewed the remuneration of the auditors for 2019 and recommended the Board to re-appoint Ernst & Young and Ernst & Young Hua Ming LLP as the auditors of the Company for 2020, subject to the approval of shareholders at the forthcoming annual general meeting.

Nomination Committee

As at the date of this report, the nomination committee of the Company (the "**Nomination Committee**") comprised seven Directors, including four independent non-executive Directors, namely Mr. Yu Tze Shan Hailson, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Chen Fangruo; two non-executive Directors Mr. Hu Jianwei and Ms. Dai Kun; and one executive Director Mr. Li Zhiming with Mr. Li Zhiming as the chairman of the Nomination Committee. The primary responsibilities of the Nomination Committee are to formulate the nomination procedures and standards for candidates for Directors. These responsibilities include, among others:

- reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors, and the succession plans for Directors (in particular the Chairman and the President); and
- formulating, implementing and reviewing from time to time the policy concerning diversity of Board members.

The nomination procedures of the Directors are as follows: the nomination committee shall firstly propose and consider a list of candidates for Directors, which shall then be submitted by the committee to the Board for review; the Board shall then submit the relevant proposal to the general meeting for shareholders' approval.

The examination procedures of the candidates for Directors are: (1) to collect, or require relevant department of the Company to collect the particulars of the occupation, education, designation, detailed work experience and all part-time jobs of the candidates and summarize the same in written materials; (2) to hold nomination committee meetings to examine the qualifications of the candidates in accordance with the requirements applicable to a Director and to state the opinion and recommendations on appointments in the form of proposals; and (3) to carry out other relevant work according to decisions of or feedback from the Board.

In order to ensure a diversity on the Board members and improve the Company's corporate governance, the Board has approved the Board diversity policy formulated by the Nomination Committee. This policy sets out the Company's policy guidelines for achieving Board diversity. To achieve Board diversification, other than complying with relevant requirements under the relevant laws, regulations and rules (including but not limited to the Company Law of the PRC, the Listing Rules and the Articles of Association), the Company should also consider various diversity factors, including but not limited to professional qualifications, industry experience, culture and education background, ethnicity, gender, age, etc. when designing the Board's composition. The above factors should be balanced as appropriate in determining the optimal composition of the Board. For appointment of each Director, the above factors shall be considered in light of the actual circumstances of the Company and its business operations and development strategies. The selection of candidates will finally be determined based on their merits and contribution to the Board. Meanwhile, the Company's diversity policy also includes monitoring, reporting and reviewing system to ensure the effectiveness and successful implementation of the policy.

During the Reporting Period, two meetings were held by the Nomination Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance in person/No. of meetings held
Mr. Li Zhiming	2/2
Mr. Wang Qunbin (resigned)	2/2
Mr. Hu Jianwei	2/2
Ms. Dai Kun	0/0
Mr. Yu Tze Shan Hailson	2/2
Mr. Liu Zhengdong	2/2
Mr. Zhuo Fumin	2/2
Mr. Chen Fangruo	2/2

During the Reporting Period, the Nomination Committee mainly reviewed the resolution on nominating Ms. Guan Xiaohui as a non-executive Director of the fourth session of the Board of the Company and the resolution on nominating Ms. Dai Kun as a non-executive Director of the fourth session of the Board of the Company. The Nomination Committee carefully discussed the work experience and professional qualifications of Director candidates and the benefits they may bring to the Board while fully considering factors under the board diversity policy, and recommended the candidates to the Board after arriving at opinions at the Nomination Committee's meeting.

Remuneration Committee

As at the date of this report, the remuneration committee of the Company (the "**Remuneration Committee**") comprised five Directors, including three independent non-executive Directors, namely Mr. Liu Zhengdong, Mr. Yu Tze Shan Hailson and Mr. Tan Wee Seng, and two non-executive Directors Mr. Deng Jindong and Mr. Wen Deyong, with Mr. Liu Zhengdong serving as the chairman of the Remuneration Committee. The primary responsibilities of the Remuneration Committee are to formulate and review the remuneration policies and schemes for the Directors and senior management of the Company. These responsibilities include, among others:

- making recommendations to the Board on the Company's overall remuneration policies and structure for Directors and senior management of the Company;
- determining the specific remuneration packages of all executive Directors and senior management, and making recommendations to the Board in relation to the remuneration of non-executive Directors; and
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives determined by the Board from time to time.

During the Reporting Period, seven meetings were held by the Remuneration Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance in person/No. of meetings held
Mr. Liu Zhengdong	7/7
Mr. Deng Jindong	4/4
Mr. Wen Deyong	7/7
Mr. Yu Tze Shan Hailson	7/7
Mr. Tan Wee Seng	4/4

During the Reporting Period, the Remuneration Committee mainly reviewed the following resolutions: Resolution on Changing the Authorized Representative for the Implementation of the Share Incentive Scheme of the Company, Resolution on Determination of the Remuneration of the Secretary to the Board of the Company for the Year 2019, Resolution on the Advance Payment of Annual Salary to the 2018 Management Team of Company, Resolution on Increasing Authorized Representatives for the Implementation of the Share Incentive Scheme of the Company, Resolution on Determination of Remuneration of the Directors of the Company for the Year 2019, Remuneration Standard Scheme for the Management Team of the Company for the Year 2019, the Assessment Scheme for the Management Team of the Company for the Year 2019, Report on the 2nd Unlock Report of the Initial Grant of the H Shares Restricted Share Incentive Scheme, and the 2019 Remuneration Incentive Scheme for the Management Team of the Company.

Strategy and Investment Committee

As at the date of this report, the strategy and investment committee of the Company (the "**Strategy and Investment Committee**") comprised eleven Directors, including three executive Directors, namely Mr. Li Zhiming, Mr. Yu Qingming and Mr. Liu Yong, six non-executive Directors, namely Mr. Chen Qiyu, Mr. Ma Ping, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wen Deyong and Ms. Guan Xiaohui; and two independent non-executive Directors, namely Mr. Tan Wee Seng and Mr. Chen Fangruo, with Mr. Li Zhiming serving as the chairman of the Strategy and Investment Committee.

The Strategy and Investment Committee is a special operating organization under and accountable to the Board. It is mainly responsible for conducting research and making recommendations on the long-term development strategies and major investment decisions of the Company, and supervising and reviewing the implementation of annual operation plans and investment proposals under the authorization of the Board.

During the Reporting Period, eight meetings were held by the Strategy and Investment Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	**Attendance in person/No. of meetings held**
Mr. Li Zhiming	8/8
Mr. Chen Qiyu	8/8
Mr. Wang Qunbin (resigned)	0/2
Mr. Ma Ping	8/8
Mr. Hu Jianwei	8/8
Mr. Deng Jindong	8/8
Mr. Yu Qingming	7/8
Mr. Liu Yong	6/8
Mr. Wen Deyong	7/7
Ms. Guan Xiaohui	2/3
Mr. Tan Wee Seng	8/8
Mr. Chen Fangruo	6/8

Note: Member of the Strategy and Investment Committee who did not attend the meetings in person have all entrusted proxies to attend the meetings, which was not counted into their attendance record.

During the Reporting Period, the Strategy and Investment Committee mainly reviewed the Report on the Three-year Work Plans Related to Government Public Relations of the Company, the Discussion on 2018 Strategic Evaluation Report of the Company and various equity investment projects.

Legal and Compliance Committee

As at the date of this report, the legal and compliance committee of the Company (the "**Legal and Compliance Committee**") comprised three Directors, including one independent non-executive Director, namely Mr. Liu Zhengdong and two executive Directors, namely Mr. Li Zhiming and Mr. Yu Qingming, with Mr. Liu Zhengdong as the chairman of the Legal and Compliance Committee.

The Legal and Compliance Committee is a special operating organization under and accountable to the Board. It is mainly responsible for promoting the rule of law of the Company and guide the Company's compliance management works.

During the Reporting Period, one meeting was held by the Legal and Compliance Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance in person/No. of meetings held
Mr. Liu Zhengdong	1/1
Mr. Li Zhiming	1/1
Mr. Yu Qingming	1/1

During the Reporting Period, the Legal and Compliance Committee mainly reviewed the 2019 Report on Compliance and Comprehensive Risk Management of the Company.

Term of Office of the Non-Executive Directors

Name	Position	Commencement Date	Expiry Date
Chen Qiyu	non-executive Director	21 September 2017	20 September 2020
Ma Ping	non-executive Director	21 September 2017	20 September 2020
Hu Jianwei	non-executive Director	28 December 2018	20 September 2020
Deng Jindong	non-executive Director	21 September 2017	20 September 2020
Wen Deyong	non-executive Director	21 September 2017	20 September 2020
Guan Xiaohui	non-executive Director	8 March 2019	20 September 2020
Dai Kun	non-executive Director	27 June 2019	20 September 2020
Yu Tze Shan Hailson	independent non-executive Director	21 September 2017	20 September 2020
Tan Wee Seng	independent non-executive Director	21 September 2017	20 September 2020
Liu Zhengdong	independent non-executive Director	21 September 2017	20 September 2020
Zhuo Fumin	independent non-executive Director	21 September 2017	20 September 2020
Chen Fangruo	independent non-executive Director	28 December 2018	20 September 2020

Compliance with the Corporate Governance Code

The Company has adopted all the code provisions contained in the Corporate Governance Code as the Company's code on corporate governance. During the Reporting Period, the Company had complied with the code provisions set out in the Corporate Governance Code.

Securities Transactions by Directors and Supervisors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the **"Model Code**") as the standards for governing the transactions of the Company's listed securities by the Directors and the supervisors of the Company (the "**Supervisor(s)**"). Having made specific enquiries with all Directors and Supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the Reporting Period.

Remuneration of Auditors

The Company's domestic auditors, Ernst & Young Hua Ming LLP and overseas auditors, Ernst & Young has served as the independent external auditors of the Group since the date of 2016 AGM. The remuneration paid and payable by the Group to Ernst & Young Hua Ming LLP and Ernst & Young in respect of the services provided during the Reporting Period is as follows:

Services provided	**Fee paid and payable**
Statutory audit service provided for 2019	RMB42,045,000
Non-statutory audit service provided for 2019	RMB1,707,000
Non-audit service – tax consultancy services	RMB2,082,000

Confirmation by the Directors and Auditors

The Directors have reviewed the effectiveness of the internal control system of the Group. The review covered all the material aspects of its internal controls, including the supervision of the financial and operational and compliance affairs, as well as risk management.

The Directors are responsible for supervising the preparation of annual accounts in order to give a true and fair view of the financial position, operating results and cash flow of the Company during the year. For the purpose of the preparation of the financial statements for the Reporting Period, the Directors have selected appropriate accounting policies, adopted applicable accounting principles, made judgments and assessments that are prudent and reasonable and ensured the financial statements were prepared on a going concern basis. The Directors have confirmed that the Group's financial statements were prepared in accordance with the requirements of laws and applicable accounting principles.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast doubt upon the ability of the Company to operate as a going concern. The statement of auditors about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report" of this report.

Shareholders' Rights

Two or more shareholders representing a total of over 10% (inclusive) shares carrying the right to vote at the meeting to be convened may sign one or more written requests of the same format and contents, and submitted to the Board for the convening of an extraordinary general meeting or a class meeting. The Board shall furnish a written reply stating its agreement or disagreement to convene the extraordinary general meeting or a class meeting within ten days upon receipt of such requisition.

When the Company convenes an annual general meeting, shareholders who individually or jointly hold three percent (3%) or more of the shares of the Company shall be entitled to propose provisional motions and submit the same in writing to the Board ten (10) days prior to the date of the general meeting, the details of which please refer to Article 58 of the Articles of Association of the Company.

The shareholders may put enquiries to the Board via the office phone number and email address of the Board office as stated in this annual report.

Amendments to the Articles of Association, the Rules of Procedure of the Board of Directors and the Rules of Procedure of the General Meeting of the Shareholders

On 22 March 2019, the Board has resolved to make certain amendments to the Articles of Association and the Rules of Procedure for the Board of Directors. The proposed amendments have been duly approved at the annual general meeting of the Company held on 27 June 2019. For details, please refer to the Company's announcements dated 22 March 2019 and 27 June 2019.

On 29 March 2020, the Board resolved to propose amendments to certain articles of the Articles of Association and the Rules of Procedure of the General Meeting of the Shareholders of the Company. The proposed amendments are subject to the consideration and approval by the shareholders' general meeting and class meetings of the Company. For details, please refer to the Company's announcement dated 29 March 2020.

Effective Communications with Investors

The Group had made effective improvements in investor relations in 2019 under the leadership and support of the Board and management. The Group has participated in a number of investment forums and effectively communicated with domestic and overseas investment institutions through various means. The Group organized on-site visits to its logistics centers, distribution centers and retail drug stores for a number of investors to allow investors to better understand Company and experience in person the Company's leading industry position and competitive advantages. During its daily work, the Company received various fund investors for on-site visits and answered investors' questions to maintain close and smooth communication. In the future, the Company will maintain on-going communications with Shareholders of the Company and investors through road shows after the issuance of interim/annual results as well as through general meetings, so as to protect the rights and interests of investors.

Implementation of Non-Competition Agreement

The independent non-executive Directors have reviewed the compliance by CNPGC of the Non-Competition Agreement and confirmed that CNPGC has complied with the terms of such agreement during the year ended 31 December 2019. CNPGC also confirmed to the Company that it has complied with the terms of the Non-Competition Agreement.

The independent non-executive Directors were not aware of any breach of the terms of the Non-Competition Agreement by CNPGC and therefore, no remedy action was taken by the Company during the year ended 31 December 2019.

In accordance with the Non-Competition Agreement entered into between the Company and CNPGC, if CNPGC or any of its subsidiaries (other than the Company) is aware of any business opportunity to own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the core business of the Company (the "**Business Opportunity**"), it will inform the Company of the aforesaid Business Opportunity in writing immediately in the first place. Whether to take up the Business Opportunity is up to the independent non-executive Directors.

During the Reporting Period, the independent non-executive Directors of the Company did not make any decisions in relation to the exercise or termination of the option or the right of first refusal or take up or waive any Business Opportunity.

Risk Management and Internal Control

The Board has established a risk management and internal control system in accordance with the requirements of paragraph C.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules and continues to monitor and review the effectiveness of its operation. The system is designed to manage rather than eliminate the risk of failure to meet business objectives, to promote effective and efficient operations, to ensure reliable financial reporting and compliance with applicable laws and regulations, as well as to safeguard the assets of the Group.

Characteristics of the Risk Management and Internal Control Organisation System

In accordance with the requirements of code provision C.2.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules, the Group has established a sound risk management and internal control organization system which includes the Board, its legal compliance committee, management of the Group, the risk and operation management department, legal compliance department, audit department, discipline inspection committee and other departments to ensure that the Group has sufficient resources, qualified and experienced staffs, training courses and related budget for risk management and internal audit. Each department of the Group serves as the frontline in risk management and internal control; and the risk and operation management department, legal compliance department and the management of the Group are the higher level supervisors for risk management and internal control; while the highest level of supervision is carried out by the Audit Committee under the Board and the audit department, with the discipline inspection and supervision department and the audit department serving as an independent supervision department that conducts internal audit for the Group's risk management system. As the highest decision maker for the Group's risk management and internal control, the Board assumes the full responsibility for the establishment of a sound risk management and internal control system as well as the effectiveness of the risk management work carried out across the Group.

Implementation of Risk Management and Internal Control

The Group reviews the effectiveness of the risk management and internal control systems every year and assesses all important aspects of internal control such as supervision on financial, operation and compliance affairs, etc. based on the five elements of internal control, namely, the internal environment, risk assessment, control activities, information and communication as well as internal supervision.

After risk assessment, the three major risks faced by the Company in 2019 were account receivable and cash flow risk, compliance risk and group management and control risk.

As for the cash flow and account receivable risk, affected by the "Two-invoice System", the business structure has changed as the proportion of the distribution business decreased and the proportion of direct sales to hospitals increased, resulting in corresponding changes in the account receivable structure and an overall increase trend. With the continuous advancement of grass roots clinics' diagnosis and treatment policies, the Group's terminal sales network has further extended downward to third- and fourth-tier cities and small terminals, resulting in an increase in the number of payment collection days. Policies such as "Zero Markup", "Reducing Drug Proportion", "Restricting the Use of Adjuvant Drugs", and "Tiered Diagnosis and Treatment" have led to funding shortage and thus delayed payment of hospitals.

As for the compliance risk, the pharmaceutical industry was faced with very stringent regulations, and compliance will become an important topic for the pharmaceutical industry. The implementation of various regulations and measures such as the "Two-invoice System", "Zero-markup for Drugs" and "Centralized Bidding and Procurement" continued to be strengthened in 2019, imposing greater responsibility and pressure on the Group.

As for the group management and control risk, frequent issue of industry policies, market hierarchic reshuffling amidst increasing market concentration, and further narrowed profit margins have led to intensified challenges for business in 2019, imposing greater pressure on the Group's operations and management. Moreover, with the continuous changes in external markets and policies, the Company's top-down design and rapid adaptive adjustment of business processes may lead to risks that affect the steady development of the Company.

In 2019, the Group formulated practical and feasible management proposals based on its actual situation and carried out effective risk management in various approaches.

Inside the Group, management strengthened its supervision, management and review for strategy implementation. After the strategy was set, the Group gave more attention to strategy implementation and reviewed the effect of strategy implementation. The Board periodically organized strategy review work to understand the implementation progress of strategy and management's feedback on strategy, and supervised and encouraged the Company's strategy to be effectively implemented to avoid mistakes.

Outside the Group, the Group strived to analyse market environment, policy trend and competition pattern, strengthened its annual planning review for the headquarters and its subsidiaries. It continued to advance promulgation and supervision work for planning implementation and assigned the coordination of planning implementation to specific persons. It analysed the key development direction for next-stage planning implementation and provided its subsidiaries with practical and reliable analysis guidance of planning objective.

The Group strived to further improve its risk and internal control management system, establish sound system and procedures and implement its supervision work effectively. It also sought to carry out the risk control thoroughly by means of prevention in advance, supervision during the process and following up afterwards. In 2019, the Company organized multiple departments to jointly carry out special supervision and inspection on the risks and compliance of multiple subsidiaries, and followed up and implemented rectification on each of the potential risks discovered. In 2019, the Company held two compliance management committee meetings, launched on-site compliance inspection and relevant rectification on 15 subsidiaries, completed the amendment and compilation of Sinopharm Group Compliance Operation Manual (Special Business), and trained employees and newly appointed general managers of third-tier subsidiaries on compliance.

Meanwhile, the Group strengthened its management on each professional business in its headquarters as well as its supervision on and guidance to the second-tier subsidiaries. It also enhanced its audit supervision and inspection on the implementation of key internal control systems by its subsidiaries in every level by conducting follow-up activities, inspection and ad-hoc audit thereon. Based on an interactive supervision mechanism, departments including, among others, the audit, legal compliance and discipline inspection departments cooperated in the supervision to form resultant force in order to strengthen management vulnerabilities, ensure implementation of the system, carry out rectification and follow-up activities and improve the accountability mechanism.

Formation of a Long-term Risk Management and Internal Control Mechanism

Focusing on the overall strategic objective, the Group has established the risk management system by implementing the basic procedures of risk management in each stage of management and its course of business. It sorted out and identified potential risks thoroughly from the headquarter level to the operational level, developing a risk database of the Sinopharm Group, a systematic and sophisticated database peculiar to the Group, as the foundation of its risk management and internal control.

Every year, the Group instructs each department to identify, analyse and assess the material risks of the Group on the basis of the changing internal and external environment and taking into consideration the possibility and impact of the risk. In light of the actual operation and management of its professional business, each department formulates detailed risk management proposals against material risks on a case by case basis.

The risk and operation management department prepares the Report on Overall Risk Management of the Sinopharm Group annually to summarise the risk management work of the previous year and review the supervision, inspection and timely rectification of all material risks. The report also sets out the risk management plan for the next year as well as resources and events that need coordination and further instruction, and is finally submitted to the management of the Company and the Board for approval.

The Group's management procedures for financial reporting and information disclosure, etc. are in strict compliance with the requirements of the Listing Rules. Office of Board of Directors enacted the Rules on the Inside Information Management of Sinopharm Group Co. Ltd., which was approved by the Board, and has set up standard control procedures for information collection, classification, approval and disclosure. Prior to disclosing relevant information to the public, the Group will ensure that such information is kept strictly confidential and will maintain a registration of insiders as required. The Supervisory Committee is responsible for the supervision of inside information management.

On the Board meeting held on 29 March 2020, the Board reviewed the risk management and internal control during the Reporting Period and concluded that there had been no deficiency in material risk control nor any weakness in material risk control based on the outcome of the risk management and internal control work implemented by the Group during the period from 1 January 2019 to the date of this Report. The Board was of the view that the risk management and internal control system of the Group is effective and sufficient.

Directors

Mr. Li Zhiming, aged 58, executive Director, Chairman (Legal Representative), Deputy Secretary of Party Committee. Mr. Li has more than 38 years of working experience, over 34 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Li graduated from the economic management discipline of the Urumqi Branch of Xi'an Military Academy with associate degree in July 1997. Mr. Li was qualified as a senior economist and a chief pharmacist. Mr. Li was the deputy director of finance department of Xinjiang New & Special Ethnic Drug Store, staff of audit department of Xinjiang Pharmaceutical Administration Bureau, deputy general manager and chief accountant of Xinjiang Pharmaceutical Industry and Trade Company, chief accountant and deputy general manager of Xinjiang New & Special Ethnic Drug Corporation, and deputy director of the office of the preparatory and leading group of Xinjiang Pharmaceutical Administration Bureau steering the construction of the group entity, and general manager of Xinjiang New & Special Ethnic Drug Corporation from July 1985 to February 2000. Mr. Li has taken senior management positions such as chairman, general manager and secretary of party committee of Xinjiang Pharmaceutical Group Company from February 2000 to February 2009, and has served as the chairman, general manager and secretary of party committee of Sinopharm Group Xinjiang Medicines Co., Ltd. from February 2009 to May 2013. Mr. Li served as the vice president of the Company from May 2010 to November 2013, and has served as the president and deputy secretary of party committee from November 2013 to March 2017, and has served as executive Director since January 2014 and the chairman, president and secretary of party committee from March 2017 to November 2017, and has served as the chairman and secretary of party committee from November 2017 to November 2018, and has served as the chairman and deputy secretary of party committee since November 2018. Mr. Li is currently the director and general manager of Sinopharm Industrial Investment Co., Ltd., the director of China National Accord Medicines Co., Ltd. and China National Medicines Co., Ltd., vice chairman of Shanghai Shyndec Pharmaceutical Co., Ltd., and also takes senior management positions at some subsidiaries.

Mr. Yu Qingming, aged 56, served as executive Director and Secretary of Party Committee. Mr. Yu has over 33 years of working experience, especially in the management of pharmaceuticals, health products and medical devices, and holds the professional title of senior engineer. Mr. Yu graduated from Shanghai Medical Equipment College (now known as University of Shanghai for Science and Technology) in 1987, and graduated from the Central Party School majoring in economic management in July 2001 with a master degree. From July 1987 to April 1990, Mr. Yu successively served as secretary of Communist League Branch at Beijing Pharmaceutical Station of CNPGC, secretary to the general manager and secretary to the Administrative Party Branch of China Medical Instrument Corporation. From April 1990 to February 1997, he served in the State Pharmaceutical Administration, serving as deputy principle clerk, principle clerk and deputy department secretary of the General Office. From February 1997 to December 2009, he successively served as deputy general manager of the China sales department and manager of the corporate management department, assistant to chairman, vice president and executive president of Zhuhai United Laboratories Co., Ltd. and executive president of Federal Pharmaceutical International Holdings Limited. Mr. Yu was the director, general manager and party secretary of China Medical Instrument Corporation from December 2009 to August 2010. Mr. Yu has taken senior management positions of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. since August 2010, and currently served as the chairman of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. Mr. Yu has served as secretary of party committee of the Company since November 2018 and executive Director of the Company since December 2018. Mr. Yu is currently also a member of the 13th Beijing Chaoyang District Political Consultative Conference, a representative of the National People's Congress, vice president of China Association for Medical Devices Industry, vice chairman of China Association of Medical Equipment, vice president of China Chamber of Commerce for Import and Export of Medicines and Health Products, and vice president of China Association for Vaccines etc.

Mr. Liu Yong, aged 51, executive Director, President and Deputy Secretary of Party Committee. Mr. Liu has over 28 years of working experience, over 25 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Liu obtained a bachelor's degree in science, majoring in business administration of pharmaceutical enterprises, from China Pharmaceutical University in July 1992, a master's degree in business administration from Fudan University in January 2000 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University in June 2016. Mr. Liu is a chief pharmacist and a practicing pharmacist. Mr. Liu was employed at Shanghai Pharmaceutical Station from July 1992 to July 1999, and served as the deputy general manager at the marketing department of China National Pharmaceutical Group Shanghai Co., Ltd. and the deputy general manager of Shanghai Guoda Drug Chain Store Co., Ltd. from July 1999 to April 2003. Mr. Liu was the general manager and secretary of Party Committee of Sinopharm Holding Shenyang Co., Ltd. from April 2003 to November 2009. Mr. Liu has served as vice president of the Company from January 2009 to November 2017, executive Director and president since November 2017, and deputy secretary of party committee since January 2018; during this period, he served as general legal counsel of the Company from January 2014 to March 2018, and was also secretary to the Board of the Company from October 2016 to November 2017, joint company secretary and authorized representative of the Company from October 2016 to August 2018. Mr. Liu is also the director of Sinopharm Industrial Investment Co., Ltd. and China National Medicines Co., Ltd., and chairman of China National Accord Medicines Co., Ltd., and also takes senior management positions at some subsidiaries.

Mr. Chen Qiyu, aged 48, non-executive Director and vice Chairman, joined the Company in January 2003, and had served as the chief supervisor until May 2010. He has served as a non-executive Director since May 2010 and has been the vice chairman since November 2013. He has over 27 years of working experience. He obtained a bachelor's degree in genetics from Fudan University in July 1993 and a master's degree of advanced business administration from China Europe International Business School in September 2005. Mr. Chen was previously the chief financial officer, the board secretary, general manager, president and vice chairman of the board of directors of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from July 1998 to May 2010, and has been its director and chairman since May 2005 and June 2010, respectively. He has served as the vice president and co-president of Fosun International Limited since August 2010, and has served as its executive director since July 2015. He has served as the vice president and co-president of Shanghai Fosun High Technology (Group) Co., Ltd. since January 2011, and has served as its director since July 2015 and has served as its Chairman since November 2017. Mr. Chen has been a director of Beijing Sanyuan Food Co., Ltd. since September 2015. Mr. Chen has served as a director of Shanghai Henlius Biotech, Inc. (listed on the Hong Kong Stock Exchange, stock code: 02696) since January 2013 and as chairman of the company's board of directors since December 2018; served as a non-executive director of Babytree Group (listed on the Hong Kong Stock Exchange, stock code: 01761) since June 2018; and served as the co-chairman of New Frontier Health Corporation (listed on the New York Stock Exchange, stock code: NFH) since December 2019. Mr. Chen served as the supervisor, director as well as the director and general manager of Sinopharm Industrial Investment Co., Ltd from July 2008 to March 2014 successively, and has served as the vice chairman of the same since March 2014 till now. Mr. Chen is currently also the chairman of China Medical Pharmaceutical Material Association, vice chairman of China Association for Pharmaceutical Innovation, honorary chairman and chief supervisor of Shanghai Biopharmaceutics Industry Association, the vice-chief of Shanghai Society of Genetics and the standing member of Shanghai 13th Committee of the Chinese People's Political Consultative Conference.

Mr. Ma Ping, aged 64, non-executive Director, joined the Company and has served as the non-executive Director of the Company since October 2016. Mr. Ma has over 37 years of working experience and currently serves as an external director of China National Pharmaceutical Group Corporation. Mr. Ma received a bachelor degree from chemistry department of Fudan University in 1982. Mr. Ma served as principal clerk, engineer, vice director and director of Ministry of Labor and Personnel, National Pharmaceutical Administration, State Planning Commission, respectively from February 1982 to March 1992. He served as department manager, project manager, general manager of London Export Corporation, Hoechst (China), Lotus Healthcare, respectively from March 1992 to April 1994. He co-founded and served as managing director of BMP from April 1994 to October 1996. He served as investment director, business development director of Sinogen International Ltd. from October 1996 to May 1998. He served as vice president, COO, China general manager of United Medical Industrial Group from May 1998 to March 2000. He served as director, vice general manager of Tonghua Golden-horse Group (a Shenzhen Stock Exchange-listed company, stock code: 000766) from March 2000 to September 2001. He served as director, general manager of BMP (a Nasdaq-listed company, stock code: BJGP) from September 2001 to December 2005. He served as director, general manager of BioPro Pharmaceutical Inc. from December 2005 to December 2011. He has been serving as director of BioPro Pharmaceutical Inc. and project consultant of Principle Capital since December 2011, and has been serving as an external director of China National Pharmaceutical Group Corporation since May 2016. Mr. Ma is also the director of China National Biotec Group Co., Ltd.

Mr. Hu Jianwei, aged 46, non-executive Director, has served as non-executive Director of the Company since he joined the Company in December 2018. Mr. Hu worked at government agencies for a long time from July 1994 to November 2017. He has in-depth research on macroeconomic operation and management and is familiar with medical and health work. He has served as a member of party committee and deputy general manager of CNPGC since December 2017, and general counsel since January 2019, mainly responsible for work such as strategic planning, branding, operation and legal affairs.

Mr. Deng Jindong, aged 56, non-executive Director, and has been a non-executive Director since he joined the Company in August 2007. He has over 32 years of working experience, over 27 years of which is financial management experience. Mr. Deng obtained a bachelor's degree in economics from Hangzhou Electronics Industry Institution (currently known as Hangzhou Dianzi University) in July 1986 and a master's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance & Economics) in January 1991. He is a non-practicing PRC certified public accountant. Mr. Deng was previously the chief financial officer of Economic Information Network Data Co., Ltd., senior audit manager of Taikang Life Insurance Co., Ltd. and the head of the accounting department of CNPGC from April 2000 to October 2001, from October 2001 to October 2002 and from October 2002 to October 2004, respectively. Mr. Deng has been the chief accountant of CNPGC from October 2004 to May 2017, and has served as its vice general manager since May 2017. Mr. Deng was a director and chief financial officer, and a director of Sinopharm Industrial Investment Co., Ltd. from July 2008 to August 2015 and from August 2015 to January 2016, respectively. He has also been its chairman since January 2016.

Mr. Wen Deyong, aged 49, non-executive Director. Mr. Wen has served as the non-executive Director of the Company since he joined the Company since September 2017. Mr. Wen graduated from Donghua University and received a master degree in business administration in December 2007. Mr. Wen is currently the executive vice president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd. and vice chairman of Chongqing Yaoyou Pharmaceutical Co., Ltd. Mr. Wen has served as the technician in water needle shop of Chongqing Pharmaceutical Co., Ltd. 6th Factory, the sales outworker in sales department, the sales director in sales company, the general manager in 2nd marketing department of Chongqing Yaoyou Pharmaceutical Co., Ltd., the general manager of northern unit of Chongqing Haisiman Company, the vice president and president of Chongqing Yaoyou Pharmaceutical Co., Ltd from September 1995 to May 2016. Mr. Wen has served as a director of Sinopharm Industrial Investment Co., Ltd. since March 2019, a director of China National Medicines Co., Ltd. since May 2019, and a supervisor of China National Accord Medicines Corporation Ltd. since May 2019.

Ms. Guan Xiaohui, aged 49, non-executive Director, has served as the non-executive Director of the Company since she joined the Company in March 2019. Ms. Guan obtained a bachelor's degree in economics from Jiangxi University of Finance and Economics and obtained a master's degree in accounting for senior accountant from the Chinese University of Hong Kong in December 2007. Ms. Guan joined Fosun Pharma in May 2000 and currently serves as the senior vice president and chief financial officer. Before joining Fosun Pharma and its subsidiaries, Ms. Guan worked at Jiangxi Provincial Branch of the Industrial and Commercial Bank of China from July 1992 to May 2000. Ms. Guan served as the supervisor of China National Accord Medicines Corporation Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000028) and the supervisor of BioSino Bio-Technology and Science Incorporation (a company listed on the Hong Kong Stock Exchange, stock code: 08247). Ms. Guan has served as a non-executive director of Shanghai Henlius Biotech, Inc. (listed on the Hong Kong Stock Exchange, stock code: 02696) since April 2018. Currently, Ms. Guan is also a supervisor of Sinopharm Industrial Investment Co., Ltd. Ms. Guan is qualified as Chinese Certified Public Account and a member of The Association of Chartered Certified Accountants.

Ms. Dai Kun, aged 43, non-executive Director. Ms. Dai has served as a non-executive Director of the Company since June 2019. Ms. Dai graduated from China University of Political Science and Law with a bachelor degree in 2000 and majored in Legal English. Ms. Dai worked at China International IntellecTech Corporation as service representative from March 2000 to November 2001. Ms. Dai successively acted as assistant to vice president of HR, HR specialist, HR executive and deputy HR director of Beijing Novartis Pharma Ltd. from November 2001 to February 2012, and acted as HR director for Novartis OTC Greater China & South Korea OU from February 2012 to August 2015. She served as head of TAS (Talent Acquisition & Staffing) Novartis Greater China and HR director of NBS China form November 2015 to March 2018. Ms. Dai joined Shanghai Fosun Pharmaceutical (Group) Co., Ltd. in March 2018, and served successively as general manager of human resources department and assistant to president & general manager of human resources department from March 2018 to January 2020. She has served as the vice president and general manager of human resources department of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since January 2020. Ms. Dai served as chairman of the supervisory committee of Shanghai Henlius Biotech, Inc. (a company listed on the Hong Kong Stock Exchange, stock code: 02696) since February 2020.

Mr. Yu Tze Shan Hailson, aged 64, independent non-executive Director, has served as an independent non-executive Director since September 2014 and has more than 41 years of working experience. Mr. Yu graduated from the University of Calgary in Canada with a bachelor's degree in Electrical Engineering in 1979, graduated from the University of Hong Kong with a master's degree in Electrical Engineering in 1987, graduated from City University of Hong Kong with a master's degree of law in Arbitration and Dispute Resolution in 1995 and completed the postgraduate diploma in Investment Management and post-graduate certificates in Hong Kong Laws and Traditional Chinese Medicine courses. Mr. Yu served as equipment maintenance and testing engineer, equipment maintenance and testing laboratory manager, computer engineering and system engineering manager of Ampex Ferrotec Limited (Hong Kong) successively from June 1979 to September 1987. Mr. Yu joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited and served as the general manager of engineering research and development department, and consultant for Petroleum Development and LPG Tank Terminal Port successively from October 1987 to January 1998. Mr. Yu has been serving as the deputy managing director of Versitech Limited and deputy director of Technology Transfer Office of the University of Hong Kong since February 1998 till now. Mr. Yu has been serving as an independent non-executive director of China Traditional Chinese Medicine Holdings Co., Ltd. (formerly known as Winteam Pharmaceutical Group Limited, a company listed on the Hong Kong Stock Exchange) since November 2013. He has served as an independent non-executive director of China NT Pharma Group Company Limited since June 2017. Mr. Yu currently is a Charted Engineer, fellow of each of the Institution of Engineering and Technology, the Hong Kong Institution of Engineers, the Chartered Institute of Arbitrators and Hong Kong Institute of Arbitrators.

Mr. Tan Wee Seng, aged 65, independent non-executive Director, has served as a non-executive Director since September 2014. Mr. Tan is a Chartered Global Management Accountant, Fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors. Mr. Tan has been with Reuters Group from April 1984 to June 2002 and has served as senior vice president and chief China representative in China, Outer Mongolia and Korea offices. Mr. Tan served as executive director, chief finance officer and company secretary of Li Ning Company Limited (a company listed on the Hong Kong Stock Exchange), from January 2003 to November 2008. Mr. Tan was an independent director and chairman of the audit committee of 7 Days Holdings Limited (whose shares were listed on the New York Stock Exchange between November 2009 to July 2013) until it was privatized. He was the Chairman of the Special Committee for Privatization of 7 Days Holdings Limited from October 2012 to July 2013. Mr. Tan currently also serves as independent non-executive director of each of Health and Happiness (H&H) International Holdings Limited (a company listed on the Hong Kong Stock Exchange), Sa Sa International Holdings Limited (a company listed on the Hong Kong Stock Exchange), CIFI Holdings (Group) Company Limited (a company listed on the Hong Kong Stock Exchange), Xtep International Holdings Limited (a company listed on the Hong Kong Stock Exchange) and Shineroad International Holdings Limited (a company listed on the Hong Kong Stock Exchange), he is also an independent director of ReneSola Ltd. (a company listed on the New York Stock Exchange) and a director of Beijing City International School.

Mr. Liu Zhengdong, aged 50, independent non-executive Director, has been an independent non-executive Director of the Company since September 2014. He is a lawyer who has more than 26 years of working experience as a practicing lawyer. Mr. Liu graduated from East China University of Political Science and Law (formerly known as East China School of Political Science and Law) with a bachelor's degree in Law in 1991, and juris master's degree in 2002. He served as an assistant prosecutor in Railway Transportation branch of Shanghai People's Procuratorate from July 1991 to June 1994. From June 1994 to October 1998, Mr. Liu worked at Shanghai Hongqiao Law Firm and has been serving as a lawyer. Mr. Liu co-founded Shanghai Junyue Law Firm with others in October 1998 and has been serving as director and chief partner successively. Mr. Liu served as president of the Eighth Session of Shanghai Bar Association and was also honored as National Excellent Lawyer and Shanghai Excellent Non-litigation Lawyer. Currently, Mr. Liu serves as deputy to the Shanghai 15th People's Congress, director of the National Lawyers Association, president of Shanghai Bankruptcy Administrators Association (上海市破產管理人協會), vice president of Shanghai General Chamber of Commerce. Mr. Liu also serves as a member of the legal experts of CPC Shanghai Committee (中共上海市委法律專家庫) arbitrators of China International Economic and Trade Arbitration Commission (CIETA), Shanghai International economic and Trade Arbitration Commission (SHIAC) and Shanghai Arbitration Commission (SAC).

Mr. Zhuo Fumin, aged 69, independent non-executive Director, Mr. Zhuo has been an independent non-executive Director since March 2016. Mr. Zhuo has more than 44 years of experience in the field of enterprise management and capital markets. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997. Mr. Zhuo currently serves as chairman and managing partner of V Star Capital. Between 1987 and 1995, Mr. Zhuo served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held in turn various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the managing director and chief executive officer of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 363) and the chairman of SIIC Medical Science and Technology (Group) Limited. Mr. Zhuo has served as the chairman and the chief executive officer of Vertex China Investment Co., Ltd. (a wholly owned subsidiary of Vertex Management Group, a global venture capital management company), founder and chairman of Shanghai Kexing Investment Co., Ltd. and managing partner of GGV Capital, a venture capital fund since 2002. Mr. Zhuo is also an independent director of Arcplus Group Plc (a company listed on the Shanghai Stock Exchange, stock code: 600629) and Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ), Focus Media (a company listed on the Shenzhen Stock Exchange, stock code: 002027), Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648) and Dazhong Transportation (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600611), a non-executive director of Besunyen Holdings Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 926), and an independent non-executive director of SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207).

Mr. Chen Fangruo, aged 55, independent non-executive Director, has served as independent non-executive Director of the Company since he joined the Company in December 2018. Mr. Chen graduated from Shanghai Jiao Tong University in 1985 with dual Bachelor's Degrees in Shipbuilding and Marine Engineering and Computer Science and Technology. In 1987, he obtained a Master's Degree from the Moore School of Electrical Engineering, University of Pennsylvania. He then received his Ph.D. degree from the Wharton School at the University of Pennsylvania. Mr. Chen worked at Columbia Business School in 1992, successively serving as the Assistant Professor, Associate Professor, Lifetime Associate Professor, and Full Professor. In 2005, he became the Lifetime Chair Professor. During the foregoing period, Mr. Chen acted as a distinguished visiting professor at Stanford School of Business, Cheung Kong Graduate School of Business, Chinese Academy of Sciences, Shanghai Jiao Tong University, Peking University, Tianjin University and other prestigious universities at home and abroad. Mr. Chen has served as a visiting chair professor at Shanghai Jiao Tong University since 2017. He is currently a "Guangqi" fund sponsored professor at Shanghai Jiao Tong University. He has acted as the Dean of Antai College of Economics and Management at Shanghai Jiao Tong University since August 2018, and concurrently as the Dean of the Industry Research Institute of Shanghai Jiao Tong University since December 2018.

Mr. Wang Qunbin, aged 51, former non-executive Director, has served as non-executive Director from January 2003 to March 2019. He has around 29 years of working experience, over 25 years of which is management experience in biological medicine. Mr. Wang obtained a bachelor's degree in science, majoring in genetics, from Fudan University in July 1991. Mr. Wang was previously a lecturer at the Genetic Research Institute of Fudan University from September 1991 to September 1993. Mr. Wang has served as a director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from May 1995 to June 2019, during which time he was its chairman of the board of directors from October 2007 to June 2010, and has been its non-executive director from October 2012 to June 2019. Mr. Wang was a director of Shanghai Fosun High Technology (Group) Co., Ltd. from November 1994 to November 2017, and has served as an executive director and chief executive officer of Fosun International Limited (a company listed on the Hong Kong Stock Exchange) since August 2005. Mr. Wang has served as directors of Shanghai Yuyuan Tourist Mart Co., Ltd., Sinopharm Industrial Investment Co., Ltd. and Henan Lingrui Pharmaceutical Company Ltd.

Supervisors

Mr. Yao Fang, aged 51, chief Supervisor, has served as the Supervisor of the Company since January 2011. Mr. Yao obtained a bachelor's degree in economics from Fudan University in July 1989 and a master degree of business administration from The Chinese University of Hong Kong in December 1993. Between 1993 and 2009, Mr. Yao served as assistant general manager of the international business department of Shanghai Wanguo Securities Co., Ltd. (currently known as Shenwan Hongyuan Group Co., Ltd.), general manager of Shanghai Shang Shi Assets Operation and Management Co., Ltd. and Shang Shi Management (Shanghai) Co., Ltd., managing director of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (delisted on 12 February 2010), the chairman of Shanghai Overseas Co., Ltd., non-executive director of Lianhua Supermarket Holdings Co., Ltd. (stock code: 00980), and executive director of Shanghai Industrial Holding Limited (stock code: 00363) listed on the Hong Kong Stock Exchange. Mr. Yao has served as a non-executive director of Biosino Bio- Technology and Science Incorporation (stock code: 08247) listed on the Hong Kong Stock Exchange from 24 January 2011 to 13 March 2014. Mr. Yao has served in Fosun Pharma since April 2010 and currently serves as the executive director and co-chairman.

Mr. Tao Wuping, aged 65, Supervisor, has been a Supervisor of the Company since June 2015, was an independent non-executive Director from September 2008 to September 2014. Mr. Tao is a lawyer and has over 36 years of working experience as practicing lawyer. Mr. Tao obtained a master's degree in law, majoring in international economic law, from Fudan University in June 1997. Mr. Tao has been the director of Guantao Zhongmao (Shanghai) Law Firm since August 2016. He was the director of Shanghai Shen Da Law Firm from August 1994 to August 2016. Mr. Tao has been a visiting law professor of Shanghai Institute of Foreign Trade, a part-time professor at the Law and Politics College of East China Normal University, and the honorary dean, a part-time professor at the Law and Politics College of Shanghai Normal University and a visiting professor of East China University of Political Science and Law since March 2002, June 2003, September 2003 and June 2012, respectively. Mr. Tao has served as an independent director of Shanghai Film Co., Ltd. and China Nature Asset Management Co., Ltd. from March 2014 to March 2019 and from August 2014 to June 2019, respectively. Mr. Tao has served as an independent director of Shanghai Jinqiao Export Processing Zone Development Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600639) since July 2019. Mr. Tao was awarded the title of "National Outstanding Attorney at Law" by All China Lawyers Association and the first session of "Eastern Attorney at Law" by Shanghai Bar Association.

Mr. Zhang Hongyu, aged 58, employee representative Supervisor, has been an employee representative Supervisor of the Company since January 2018. Mr. Zhang has over 34 years of working experience. Mr. Zhang obtained a bachelor degree in economics from East China Normal University in July 1985 and a master degree in EMBA from Shanghai Jiao Tong University in December 2007. Mr. Zhang served successively as a staff member and engineer of Human Resource Department of the Shanghai Branch of Chinese Academy of Sciences from July 1985 to September 1992. Mr. Zhang served as the manager of Human Resources Department of Shanghai Keyuan Real Estate Development Co., Ltd. from September 1992 to September 1994 and the manager of Shanghai Huihuang Architectural Decoration Co., Ltd. from October 1994 to August 1996. Mr. Zhang worked at the Shanghai Branch of Chinese Academy of Sciences from September 1996 to October 1999 and finally served as deputy-division-chief researcher at the Human Resource Department. Mr. Zhang successively served as deputy general manager of Human Resources Department of China Worldbest Group Co., Ltd., head of Human Resources Department of China Worldbest Life Industry Co., Ltd., assistant to president and head of Human Resources Department of China Worldbest Life Industry Co., Ltd. from November 1999 to December 2006. Mr. Zhang served as deputy party secretary and head of Human Resources Department of Sinopharm Logistics Co., Ltd. from March 2007 to June 2009, head of Human Resources Department of Distribution Business Department of the Company and deputy head of Human Resources Department of the Company from July 2009 to September 2010, head of the Party Affairs Department of the Company from September 2010 to January 2018, and deputy secretary of Discipline Inspection Commission and deputy chairman of Labour Union of the Company from December 2012 to January 2018, and secretary of Discipline Inspection Commission and deputy chairman of Labour Union of the Company from January 2018 to May 2018. He has been serving as the secretary of Discipline Inspection Commission of the Company since May 2018.

Ms. Li Xiaojuan, aged 44, Supervisor. Ms. Li served as a Supervisor of the Company since January 2016. Ms. Li has over 18 years of working experience. Ms. Li obtained a bachelor's degree in real estate operation and management from investment economics department of Dongbei University of Finance & Economics in July 1998 and a master's degree in national economics (investment economics) with specialty in securities investment from investment economics department of Dongbei University of Finance & Economics in April 2001. Ms. Li is a qualified economist, a non-practicing certified public accountant, and an asset valuer. Ms. Li served as the project manager of Beijing Tianhua Accounting Firm from April 2001 to April 2003 and the vice director of strategic cooperation department of TopSun Group from April 2003 to February 2005. Ms. Li served as the manager of finance department of China National Pharmaceutical Industry Corporation from February 2005 to April 2006 and the director of auditing and supervision office and the manager of auditing department of China National Pharmaceutical Industry Corporation from April 2006 to August 2010. Ms. Li joined CNPGC in August 2010 and served as the vice director of investment management department from August 2010 to April 2014. She has served as vice director and director of auditing department from April 2014 to January 2019 and has served as director of finance department since January 2019. Ms. Li has served as the Chief Financial Officer of Sinopharm Industrial Investment Co., Ltd. since September 2019.

Ms. Jin Yi, aged 45, employee representative Supervisor. Ms. Jin has been the employee representative Supervisor since June 2015. Ms. Jin has approximately 20 years of working experience. Ms. Jin obtained a bachelor's degree in economics, majoring in investment economics, from Nanjing University in July 1997, and a master's degree in business administration from The Chinese University of Hong Kong in December 2005. Ms. Jin was qualified as an intermediate economist. Ms. Jin served as the floor trader of Zhengzhou Commodity Exchange in China from July 1997 to May 1998, the project manager of information consulting department of Shanghai Information Center from May 1999 to July 2003, and the senior analyst of ALC Advisors (Shanghai) Company Limited from April 2005 to November 2007. Ms. Jin joined the Company in December 2007, successively served as the senior project manager and the vice director of the investment management department, and has been the investment project supervisor of the investment management department since January 2015.

Company Secretaries

Mr. Wu Yijian, one of the joint company secretaries, is also secretary to the Board. Please refer to the section headed "Senior Management" for Mr. Wu's biography.

Dr. Liu Wei, aged 62, has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong and in England. Dr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law and the University of Cambridge with a bachelor's degree in Chinese literature, a master's degree in law, a Ph.D. in Law respectively. Dr. Liu also completed his Common Professional Examination (CPE) with Manchester University in England, as well as a Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong. Dr. Liu has extensive experience in corporate finance and corporate governance of listed companies and is a partner of DLA Piper.

Senior Management

Mr. Liu Yong, Mr. Liu Yong is currently an executive Director and the President of the Company. Please refer to the section headed "Directors" above for Mr. Liu's biography.

Mr. Li Yang, aged 42, joined the Company as a vice president in November 2018. Mr. Li has more than 20 years of working experience, with more than 18 years of operation and management experience in the medical devices industry. Mr. Li obtained a Bachelor of Economics in International Enterprise Management from Dalian Maritime University in July 2000. Mr. Li is qualified as Assistant Economist. Mr. Li worked at the Human Resources Department and served as the secretary to the general manager of China National Pharmaceutical Group Co., Ltd. from July 2000 to September 2002. Mr. Li also served successively as the key account manager of the Sales Department of GE Healthcare China, sales manager and north district manager of the MRI Division of IBA China from October 2002 to January 2011. Mr. Li served as the senior manager of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. since January 2011, and currently served as the director and general manager of China National Scientific Instruments and the director, general manager, and secretary of Party Committee of China National Medical Device Co., Ltd.

Mr. Jiang Xiuchang, aged 56, joined the Company as the chief financial officer in May 2010, and has been the vice president of the Company since July 2013. He has over 33 years of working experience, over 22 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Jiang obtained a bachelor's degree in financial accounting from Zhongnan University of Economics and Law in July 1986, and graduated from the class for advanced studies of postgraduate courses in corporate management from the School of International Business Management of University of International Business and Economics in January 2005. Mr. Jiang was qualified as a senior economist and senior accountant. Mr. Jiang served at China National Pharmaceutical (Group) Corporation from July 1986 to March 2002, and was the deputy head of the department of information, reform office, finance department and deputy manager of the department of pharmacy. He was deputy head, head and chief financial officer of the finance department of China National Medicines Co., Ltd. from March 2002 to May 2010. Mr. Jiang is currently the chairman of China National Medicines Co., Ltd., the director of China National Accord Medicines Co., Ltd. and takes senior management positions at some subsidiaries.

Mr. Lian Wanyong, aged 50, joined the Company as a vice president in January 2018. Mr. Lian has over 23 years of working experience, all of which is management experience. Mr. Lian obtained a bachelor's degree in medicine, majoring in clinical medicine, from Hunan University of Medicine (currently known as Central South University Xiangya School of Medicine) in July 1993, a master's degree in medicine, majoring in pharmacology, from Zhongshan Medicine University (currently known as Zhongshan School of Medicine, Sun Yat-Sen University) in July 1996 and a master's degree in business administration from the University of Miami in May 2002, respectively. Mr. Lian was previously the manager of the operation and audit department of China National Group Corp. of Traditional & Herbal Medicine from January 2004 to July 2005, and a deputy head of the financial assets management department of CNPGC from July 2005 to February 2008, respectively, and the head of the investment management department of CNPGC from March 2008 to April 2014 and vice director of policy research office of CNPGC from April 2014 to January 2018. Mr. Lian was a director of Sinopharm Industrial Investment Co., Ltd. from December 2008 to March 2014. Mr. Lian was a non-executive Director of the Company from December 2008 to January 2011 and from January 2016 to January 2018. He served as a Supervisor of the Company from January 2011 to December 2015. Mr. Lian is also the director of China National Medicines Co., Ltd. and China National Accord Medicines Co., Ltd. and takes senior management positions at some subsidiaries.

Ms. Wang Jie, aged 55, joined the Company as a vice president in January 2019. Ms. Wang has over 30 years of working experience. Ms. Wang graduated from chemistry department of Sichuan University in July 1987 and obtained a master degree in polymer major from chemistry department of Sichuan University in July 1990. Ms. Wang served as an assistant researcher, office director assistant, office vice director, sales vice director and sales manager of Chengdu Institute of Biological Products from August 1990 to April 2008. Ms. Wang served as a marketing department manager of China National Biotec Group from April 2008 to November 2009. Ms. Wang served as a director of marketing department, director of public affairs department and director of international cooperation and public affairs department of CNPGC from November 2009 to January 2019. Ms. Wang served as a vice general manager of China National Pharmaceutical Investment Co., Ltd. from November 2016 to January 2019.

Mr. Cai Maisong, aged 50, joined the Company as a vice president in January 2018. Mr. Cai has over 27 years of working experience. Mr. Cai received a bachelor degree of pharmacy from School of Pharmacy of Beijing Medical University in July 1992, and later received a master degree in business administration from Nankai University. Mr. Cai served as a technician, factory director and vice manager of fourth operation department in first factory of Guangzhou Baiyunshan Pharmaceutical Company from July 1992 to June 1996.Mr. Cai served as the regional manager in Greater China Group in Les Laboratoires Servier Industrie from June 1996 to June 2001. Mr. Cai served as a vice manager in development zone medicine company of Tianjin purchase station of China National Pharmaceutical Group Corp. and manager in logistics center of China National Pharmaceutical Group Corp. Tianjin Co., Ltd. from July 2001 to July 2002 and from July 2002 to December 2002 respectively. Mr. Cai served as a director of commerce department and director of operation management center in Sinopharm Holding Tianjin Co., Ltd. from January 2003 to July 2006, and served as a director of risk and operation management department in Sinopharm Group Co. Ltd. from July 2006 to December 2010. Mr. Cai served as a vice director of risk and operation management department, director of risk and operation management department and vice director of policy research office in CNPGC from January 2011 to August 2017. Mr. Cai served as a supervisor in China National Pharmaceutical Group Corp. from December 2012 to January 2018, and served as a vice principal in Sichuan Province Food and Drug Administration from June 2016 to January 2018. Mr. Cai was the secretary to the Board, joint company secretary and authorized representative of the Company from August 2018 to December 2018. Mr. Cai currently takes senior management positions at some subsidiaries.

Mr. Li Dongjiu, aged 55, joined the Company as a vice president and chief legal advisor in January 2018. Mr. Li has over 32 years of working experience in the pharmaceutical industry, over 27 years of which relates to management experience in the pharmaceutical and healthcare products industry. Mr. Li is a professor-level senior engineer and Doctor of Engineering, Mr. Li obtained a bachelor's degree in Chemical Engineering from Dalian University of Technology in July 1987, a master's degree in Management from Wuhan University of Technology in July 1998, a master's degree of Arts in International Economic Relations from the Flinders University of South Australia in October 2005, a PhD degree of Transportation Planning and Management from Wuhan University of Technology in June 2013, and an EMBA degree from China Europe International Business School. Mr. Li worked for North China Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) as a deputy general manager of North China Pharmaceutical Huasheng Co., Ltd., general manager of Sweeteners Vitamins Department of North China Pharmaceutical Group Corporation, general manager of Sales Company of North China Pharmaceutical Group Corporation and deputy general manager of North China Pharmaceutical Co., Ltd. and head of its financial department, successively from July 1987 to December 2009, and served as executive president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., vice president and director of the Pharmaceutical Management Committee and senior vice president and director of the pharmaceutical management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (a company listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and president of Shanghai Fosun Pharmaceutical Development Co., Ltd., successively from December 2009 to December 2012. Mr. Li served as a senior vice president, chairman of the medicine commercialization and consumer products management committee and vice chairman of the pharmaceutical manufacturing management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from January 2013 to August 2016 and served as a director of Nature's Sunshine Products Inc., a company listed on NASDAQ, USA (NASDAQ: NATR) from August 2014 to June 2016. Mr. Li was the non-executive Director of the Company from October 2013 to January 2018. Mr. Li has served as a vice president, senior vice president and chairman of pharmaceutical commerce committee of Shanghai Fosun Pharmaceutical Development Co., Ltd. from June 2010 to January 2018. Mr. Li is also the director of China National Medicines Co., Ltd. and China National Accord Medicines Co., Ltd. and takes senior management positions at some subsidiaries.

Mr. Zhou Xudong, aged 51, joined the Company as a vice president in January 2018. Mr. Zhou has over 30 years of working experience. Mr. Zhou received an associate degree of audit from department one from Nanjing Audit University in July 1990. Mr. Zhou served as an accountant of audit department in Yizheng Chemical Fiber Industry Alliance Company from July 1990 to October 1992. Mr. Zhou served as a salesman, vice director, vice manager of medicine operation department and vice general manager in Nantong City Chemical Pharmaceutical Raw Material Company from November 1992 to December 2002. Mr. Zhou served as a general manager and chairman in Nantong City Pharmaceutical Sales Co., Ltd. from December 2002 to December 2011. Mr. Zhou served as a general manager of Sinopharm Holding Nantong Co., Ltd. and vice general manager of Sinopharm Holding Jiangsu Co., Ltd. from December 2011 to May 2015 and from July 2014 to April 2015 respectively. He has served as a general manager of Sinopharm Holding Jiangsu Co., Ltd. from May 2015 to March 2019. Mr. Zhou currently takes senior management positions at some subsidiaries.

Mr. Wu Yijian, aged 50, joined the Company as the secretary to the Board in January 2019. Mr. Wu graduated from Shanghai Medical University with a bachelor's degree in medicine in July 1993. Mr. Wu obtained his master's degree in business administration from Tsinghua University in July 2003, his joint master's degree in professional accounting for senior accountant from the Chinese University of Hong Kong and Shanghai National Accounting Institute in November 2014, and completed the courses for the general manager in the China Europe International Business School of Management in July 2007. Mr. Wu has served in Sanjiu Enterprise from July 1993 to May 2004 and successively served as sales director of Sanjiu Pharmaceutical Trading Co., Ltd., the chief operating officer of Sanjiu Pharmaceutical Chain Co., Ltd. and the deputy general manager of Shanghai Sanjiu Pharmaceutical Technology Development Co., Ltd. Mr. Wu served in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from June 2004 to October 2014 and successively served as the general manager of Shanghai Fosun Pharmaceutical Investment Co., Ltd., general manager of Shanghai Fosun Pharmaceutical Co., Ltd., general manager of Shanghai Fumei Pharmacy Co., Ltd. and other positions. Mr. Wu served as the vice president of Shanghai Yuyuan Tourist Mart Co., Ltd. from November 2014 to December 2015. Mr. Wu served as the president assistant and the director of the commercial pharmaceutical management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from January 2016 to December 2018. Mr. Wu was a non-executive Director of the Company from June 2016 to September 2017 and from March 2018 to December 2018.

Mr. Xu Shuangjun, aged 52, has been the non-executive vice president of the Company since May 2011. He has over 34 years of working experience, over 26 years of which is management experience in the pharmaceutical and healthcare products industry. He graduated from the School of Pharmacy of the Second Military Medical University in Shanghai and obtained a bachelor's degree in medicine in 2001. He further obtained a master's degree in business administration from the Macau University of Science and Technology in 2006 and has the qualifications of practicing pharmacist and chief pharmacist. Mr. Xu was employed at Shijiazhuang Lerentang from October 1987 to March 1999. He was manager of the operating branch and the deputy general manager of Shijiazhuang City Medicines and Herbs Co., Ltd. from March 1999 to August 2004, and was the chairman and general manager of Hebei Zhongrui Medicines Co., Ltd., the general manager and secretary of the Party Committee of Shijiazhuang Lerentang Pharmaceutical Co., Ltd., and the chairman and general manager of and secretary of the Party Committee of Lerentang Pharmaceutical Group Co., Ltd. from August 2004 to May 2011. Mr. Xu was the vice chairman, general manager and secretary of the Party Committee of Sinopharm Lerentang Pharmaceutical Co., Ltd. from May 2011 to June 2013, and has been its chairman since June 2013.

Report of the Board of Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Principal Business

Our Group is the largest distributor of pharmaceutical and healthcare products, and a leading supply chain services provider in the PRC; it also operates the largest national pharmaceutical distribution network in the PRC according to the information of China Association of Pharmaceutical Commerce. The Group has been able to rapidly increase its market share and profits in a highly fragmented industry by taking advantage of its economies of scale and nationwide distribution network, through which the Group offers a wide range of value-added supply chain services for its customers and suppliers.

The Group has integrated operations in the following business segments, namely:

- **Pharmaceutical distribution segment:** Pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for domestic and international pharmaceutical and healthcare products manufacturers and other suppliers. The Group differentiates itself from its competitors in China by its strengths of geographic coverage, the breadth of its product portfolio and the comprehensive supply chain services provided to its customers and suppliers, etc.

- **Retail pharmacy segment:** The Group has established a network of retail drug stores in major cities of China via direct operations and franchises.

- **Medical devices segment:** The Group is engaged in the distribution of medical devices in China.

- **Other business segment:** The Group is also engaged in the production and sale of pharmaceutical products, chemical reagents and laboratory supplies.

Please refer to the sections headed "Management Discussion and Analysis" and "Corporate Governance Report" for a fair review and the analysis using financial key indicators on the Group's business, major risks, subsequent events and uncertainties faced by the Group, and the future development of the Group's business.

Results

The operating results of the Group during the Reporting Period are set out in the consolidated statement of profit or loss on page 98 of this annual report.

Dividends

Relevant resolution was passed at a meeting of the Board held on 29 March 2020 to propose to distribute a final dividend of RMB0.60 per share (tax inclusive) for the year ended 31 December 2019 (the "**Final Dividend**"), totalling approximately RMB1,872,394 thousand. If the proposal of profit distribution is approved by shareholders at the 2019 annual general meeting to be held on Thursday, 11 June 2020 (the "**AGM**"), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Monday, 22 June 2020 no later than 11 August 2020.

According to the Articles of Association of the Company, the Final Dividends will be denominated and declared in Renminbi. Final Dividend on domestic shares of the Company and for investors investing in the H shares of the Company through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect (the "**Southbound Trading**") (the "**Southbound Trading Shareholders**") will be paid in Renminbi, and the Final Dividend for other holders of H shares of the Company will be paid in Hong Kong dollars. The amount of the Final Dividend payable in Hong Kong dollars shall be calculated based on the average exchange rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to 11 June 2020 (being the date of declaration of the Final Dividend).

For the Southbound Trading Shareholders, the Company will enter into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (港股通H股股票現金紅利派發協議) with China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, each of which as a nominee of the holders of H shares for Southbound Trading, will receive all the Final Dividend distributed by the Company and distribute the Final Dividend to the relevant Southbound Trading Shareholders through their depositary and clearing systems.

Pursuant to the Enterprise Income Tax Law of the PRC and its implementing regulations (hereinafter collectively referred to as the "**EIT Law**"), the tax rate of the enterprise income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders as defined under the EIT Law. The Company will distribute the Final Dividend to non-resident enterprise shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise as defined under the EIT Law which has been legally incorporated in the PRC or which has established effective administrative entities in the PRC pursuant to the laws of foreign countries (regions) and whose name appears on the register of the members of H shares of the Company should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a PRC lawyer (with the official chop of the issuing law firm affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document (the "**Notice**") issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld by the Company from the Final Dividend payable to the individual H-share shareholders whose names appear on the register of members of the Company on Monday, 22 June 2020, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice. If individual H Share shareholders consider that the tax rate adopted by the Company for the withholding and payment of individual income tax on their behalf is not the same as the tax rate stipulated in any tax treaties between the PRC and the countries (regions) in which they are domiciled, after receiving the dividends, they may proceed with the subsequent tax related treatment in person or through proxy with competent tax authorities of the Company in accordance with requirements under the tax treaties.

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission, for dividends derived by Mainland individual investors from investing in H-share listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by Mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Board is not aware of any shareholders who have waived or agreed to waive any dividends.

Dividend Policy

The Company has established a dividend policy. Under the PRC Company Law and the Articles of Association, all of our shareholders have equal rights to dividends and distribution. The declaration of dividends is subject to the discretion of the Board and the approval of the shareholders, which the Company expect will take into account factors such as the following:

(i) the Company's financial results;

(ii) the Company's shareholders' interests;

(iii) general business conditions and strategies;

(iv) the Company's capital requirements;

(v) contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;

(vi) taxation considerations;

(vii) possible effects on the Company's credit worthiness;

(viii) statutory and regulatory restrictions; and

(ix) any other factors the Board may deem relevant.

The allocations to the statutory common reserve fund are currently determined to be 10% of the Company's after-tax profit attributable to equity holders of the Company for the fiscal year deter-mined in accordance with PRC accounting rules and regulations. When the accumulated allocations to the statutory common reserve fund reach 50% of the Company's registered capital, the Company will no longer be required to make allowances for allocation to the statutory common reserve fund.

Purchase, Sale and Redemption of Listed Securities

During the Reporting Period, none of the Company and its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Restricted Share Incentive Scheme

The Restricted Share Incentive Scheme (the "**Scheme**") of the Company took effect on 18 October 2016. According to the Initial Grant proposal, starting from 16 November 2019, the restricted shares under the Initial Grant should enter the second unlocking period. Since the Company failed to achieve part of the performance targets for 2018 therefore failed to meet unlocking conditions, upon consideration and approval by the Board on 15 November 2019, except for Scheme Participants who withdrew from the Scheme due to reasons such as resignation or change of positions, the remaining 1.9437 million restricted H shares which have been granted to an aggregate of 160 Scheme Participants will not be unlocked. In 2019, the Company sold a total of 2.3851 million shares of the Company's H Shares to the secondary market through trustees, including 1.9437 million Shares that were not unlocked in the second period and a small number of Shares that did not meet unlocking conditions because Scheme Participants withdrew from the Scheme due to resignation or change of positions or their personal performance did not meet the requirement.

For further details of the Scheme, please refer to Note 49 to the Consolidated Financial Statements.

Principal Subsidiaries

Details of the names, principal places of business, places of incorporation and issued share capital of the Company's principal subsidiaries are set out in Note 47 to the Consolidated Financial Statements.

Reserves

Details of movements in reserves of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Equity on page 102 of this annual report and Note 40 to the Consolidated Financial Statements.

Distributable Reserves

In accordance with the PRC Company Law, the Company may only distribute dividends out of its distributable profits of the year (i.e. the Company's profit after tax after offsetting:

(i) the accumulated losses brought forward from the previous years; and

(ii) the allocations to the statutory surplus reserve and, if any, the discretionary common reserve (in such order of priorities)).

According to the Articles of Association, for the purpose of determining distributable profit, the distributable profit of the Company shall be the lower of its profit after tax determined in accordance with: (i) the PRC accounting standards and regulations; and (ii) the HKFRSs.

In 2019, the distributable reserves of the Company, calculated based on the above principles, amounted to approximately RMB26,312.66 million, which is prepared in accordance with the HKFRSs.

Property, Plant, Equipment and Investment Properties

Details of changes in investment properties and property, plant and equipment of the Group during the Reporting Period are set out in Notes 17 and 18 to the Consolidated Financial Statements.

Borrowings

Details of borrowings of the Group are set out in Note 33 to the Consolidated Financial Statements.

Debenture

In order to facilitate the adjustment of the debt structure of the Group and reduce financing costs, the Group issued corporate bonds of RMB4 billion and super short-term financing bonds of RMB31.5 billion during the Reporting Period.

Details of issued bonds of the Group during the Reporting Period are set out in Note 33 to the Consolidated Financial Statements.

Use of Proceeds from Placing of H Shares

The Company completed the placing of 149,000,000 new H shares on 23 January 2020 at the placing price of HK$27.30 per H share (the "**H Share Placing**"). The actual net proceeds were HK$4,027 million, equivalent to RMB3,567 million, intended to be used for the expansion of pharmaceutical distribution, retail network and development of medical device business, as well as improvement of working capital after the expansion. The table below sets out the details of the use of the net proceeds from the H Share Placing:

Unit: RMB million

Committed use of proceeds	Amount invested as of the date of this report	Cumulative amount invested as of the date of this report	Balance as of the date of this report
1. Expansion of pharmaceutical distribution network	–	–	3,151
2. Expansion of retail network	–	–	
3. Development of medical device business	–	–	
4. Improvement of working capital after the expansion	416	416	

As of the date of this report (being 29 March 2020), the use or planned use of the net proceeds is consistent with the intended use disclosed in the announcement of the Company dated 23 January 2020. For unutilized proceeds, there is no expected timeline currently. However, the Company will use the proceeds in accordance with the above-mentioned intended use, and will disclose the details of the actual use in the next periodic report of the Company.

Major Customers and Suppliers

During the Reporting Period, purchases of goods and services from its 5 largest suppliers were less than 30% of the Group's total purchases, and the goods and services sold to its 5 largest customers were less than 30% of the Group's total sales.

Permitted Indemnity Provisions

The Company has maintained directors' liability insurance to protect the Directors of the Company against any potential losses arising from his/her actual or alleged misconduct.

Connected Transactions

Pursuant to the requirements of the Listing Rules, the transactions between the Company and its connected persons (as defined under the Listing Rules) constitute connected transactions of the Company. The Company regulates and manages such transactions in compliance with the Listing Rules. The followings are the non-exempt connected transactions conducted by the Group during the Reporting Period.

Non-Exempt Continuing Connected Transactions

For the year of 2019, the Group entered into several non-exempt continuing connected transactions. The annual caps for and the actual transaction amounts of the non-exempt continuing connected transactions by the Group are set out below:

Transactions between the Group and the CNPGC Group under the Procurement Framework Agreement and Sales Framework Agreement	**Annual cap for the year 2019** (RMB million)	**Actual transaction amounts for the year ended 31 December 2019** (RMB million)
Transactions between the Group and the CNPGC Group under the Framework Procurement Agreement	8,000	5,079
Transactions between the Group and the CNPGC Group under the Framework Sales Agreement	2,000	1,114

Transactions between the Group and Sinopharm Group Finance Co. Under the Financial Services Framework Agreement	**Annual cap for the year 2019** (RMB million)	**Actual transaction amounts for the year ended 31 December 2019** (RMB million)
Maximum daily balance of the deposits placed with Sinopharm Group Finance Co. by the Group	3,500	3,458
Interests/service fees incurred by the Group for the provision of other financial services by Sinopharm Group Finance Co.	200	169

Transaction between the Group and the CNPGC Group under the EPC General Contracting Services Framework Agreement	**Annual cap for the year 2019** (RMB million)	**Actual transaction amounts for the year ended 31 December 2019** (RMB million)
Amount payable by the Group to the CNPGC Group under the EPC General Contracting Services Framework Agreement	500	72

Transaction between the Group and the Factoring Company under the Factoring Services Framework Agreement	Annual cap for the year 2019 (RMB million)	Actual transaction amounts for the year ended 31 December 2019 (RMB million)
Interests/service fees payable by the Group to the Factoring Company under the Factoring Services Framework Agreement	100	69

The continuing connected transactions between the Group and the CNPGC Group under the Procurement Framework Agreement

In order to regulate the continuing connected transactions in respect of the procurement of pharmaceutical products between the Group and CNPGC and its subsidiaries and associates (excluding the Group) (the "**CNPGC Group**"), the Company and the CNPGC renewed the Procurement Framework Agreement of Pharmaceutical Products, Personal-care Supplies and Medical Equipment ("**Procurement Framework Agreement**") on 27 October 2017, and set up the annual caps for the continuing connected transactions contemplated under the Procurement Framework Agreement for the three years ending 31 December 2020 to be RMB6,000 million, RMB8,000 million and RMB10,000 million, respectively.

Pursuant to the Listing Rules, the Procurement Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the independent shareholders of the Company.

Pursuant to the Procurement Framework Agreement, the Group has agreed to purchase pharmaceutical products, personal-care supplies and medical equipment as well as the related services from the CNPGC Group. The related services to be provided by the CNPGC Group under the Procurement Framework Agreement mainly include the transportation services, storage services, equipment maintenance and repair services, as well as other related and ancillary services.

Under the Procurement Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) The price of pharmaceutical products, personal-care supplies and medical equipment procured by the Group from the CNPGC Group under the renewed Procurement Framework Agreement will be offered by members of the CNPGC Group based on the bidding price of the relevant products, which is won by relevant member of the CNPGC Group through its participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit of distributors at each level; (ii) where relevant members of the CNPGC Group will on a regular basis, provide the Company and its subsidiaries with the procurement price list of all types of the above-mentioned products for distributors at each level. The Company and/or its subsidiaries, after considering comprehensively a lot of factors relating to the specific product, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit and average price in the industry and going through all necessary internal review and approval procedures covering the president and various departments including procurement department, finance department, operation department and quality department of the Company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of the CNPGC Group. If the Company and/or its subsidiaries, after taking into consideration all the above-mentioned factors, consider that the procurement price offered by members of the CNPGC Group is not in the best interest of the Company and its shareholders, or is not fair and reasonable, they will make the decision not to procure such products from the CNPGC Group.

The Procurement Framework Agreement is for a term of three years with effect from 1 January 2018 and ending on 31 December 2020. Upon expiry, the Procurement Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. Therefore, the transactions under the Procurement Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the CNPGC Group under the Sales Framework Agreement

In order to regulate the continuing connected transactions in respect of the sales of, among others, pharmaceutical products between the Group and the CNPGC Group, the Company and the CNPGC renewed the Sales Framework Agreement of Pharmaceutical Products, Personal-care Supplies, Medical Equipment, Chemical Reagents and Laboratory Supplies ("**Sales Framework Agreement**") on 27 October 2017, and set up the annual caps for the continuing connected transactions contemplated under the renewed Sales Framework Agreement for the three years ending 31 December 2020 to be RMB1,400 million, RMB2,000 million and RMB2,800 million, respectively.

Pursuant to the Listing Rules, the Sales Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to Sales Framework Agreement, the Group has agreed to sell pharmaceutical products, personal-care supplies, medical equipment, chemical reagents and laboratory supplies as well as the related services to the CNPGC Group. The related services to be provided by the Group under the Sales Framework Agreement mainly include the transportation services, storage services, equipment maintenance and repair services, as well as other related and ancillary services.

Under the Sales Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) The price of pharmaceutical products, personal-care supplies, medical equipment, chemical reagent, chemical reagents or laboratory supplies sold by the Group to the CNPGC Group under the renewed Sales Framework Agreement will be offered by members of the Group based on the bidding price of the relevant products, which is won by relevant member of the Group through its participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit margin of distributors at each level; (ii) The finance department of the Company will be responsible for collecting data of the continuing connected transactions conducted by itself or any of its subsidiaries on a regular basis and examining and comparing specific agreements for such continuing connected transactions with those entered into with independent third parties, so as to ensure that the pricing policies of the relevant products offered by the Company and/or its subsidiaries to the CNPGC Group are comparable to those offered to independent third parties.

The Sales Framework Agreement is for a term of three years with effect from 1 January 2018 and ending on 31 December 2020. Upon expiry, the Sales Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. Therefore, the transactions under the Sales Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and Sinopharm Group Finance Co. under the Financial Services Framework Agreement

In order to regulate the continuing connected transactions in respect of the utilization of financial services between the Group and Sinopharm Group Finance Co., Ltd. ("**Sinopharm Group Finance Co**.") the Company and Sinopharm Group Finance Co. renewed the Financial Services Framework Agreement ("**Financial Services Framework Agreement**") on 27 October 2017, and set up the annual caps for the maximum daily balance of the deposits under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2020 to be RMB3,500 million, and the annual caps for the interests/service fees paid for the provision of other financial services under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2020 to be RMB200 million.

Pursuant to the Listing Rules, the Financial Services Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to the Financial Services Framework Agreement, the Company and/or its subsidiaries will, from time to time, utilize the following financial services available from Sinopharm Group Finance Co. as is deemed necessary: (i) deposit services; (ii) loan and entrustment loan services; (iii) other financial services including bill discounting and acceptance services, finance lease services, settlement services and entrustment loan agency services; and (iv) other services as approved by China Banking Regulatory Commission.

Fees and charges payable by the Company and/or its subsidiaries to Sinopharm Group Finance Co. under the Financial Services Framework Agreement are determined on the following basis: (1) deposit services: interest rates shall not be lower than each of (i) the interest rates floor promulgated by the People's Bank of China from time to time for the same category of deposits; (ii) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Co. for the same category of deposits; and (iii) the interest rates offered to the Company and/or its subsidiaries by commercial banks for the same category of deposits. (2) loan services: interest rates shall not be higher than each of (i) the interest rates cap promulgated by the People's Bank of China from time to time for the same category of loans; (ii) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Co. for the same category of loans; and (iii) the interest rates offered to the Company and/or its subsidiaries by commercial banks for the same category of loans. (3) other financial services: the interests or service fees charged for other financial services shall (i) comply with the standard rates as promulgated by the People's Bank of China or China Banking Regulatory Commission from time to time (if applicable); (ii) be not higher than the interests or service fees charged by commercial banks for comparable services; and (iii) be not higher than the interests or service fees charged by Sinopharm Group Finance Co. for comparable services to other members of the CNPGC Group. Sinopharm Group Finance Co. may provide other services to the Company and/or its subsidiaries as may be approved by China Banking Regulatory Commission in the future. The fees and charges for such services to be provided shall: (i) comply with the standard rates as promulgated by the People's Bank of China or China Banking Regulatory Commission from time to time (if applicable) for such kind of services; (ii) be not higher than the fees charged by commercial banks for comparable services; and (iii) be not higher than the fees charged by Sinopharm Group Finance Co. for comparable services to other members of the CNPGC Group.

The Financial Services Framework Agreement is effective for a term of three years from 1 January 2018 to 31 December 2020. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

Sinopharm Group Finance Co. is a subsidiary of the ultimate controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Financial Services Framework Agreement between the Company and Sinopharm Group Finance Co. constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the CNPGC Group under the EPC General Contracting Service Framework Agreement

In order to regulate the continuing connected transactions in respect of the EPC general contracting service between the Group and the CNPGC Group, the Company and the CNPGC renewed the EPC General Contracting Service Framework Agreement ("**EPC General Contracting Service Framework Agreemen**t") on 27 October 2017, and set up the annual caps for the continuing connected transactions contemplated under the EPC General Contracting Service Framework Agreement for the three years ending 31 December 2020 to be RMB500 million, respectively.

Pursuant to the Listing Rules, the EPC General Contracting Service Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to the EPC General Contracting Service Framework Agreement, the CNPGC Group will provide EPC (Engineering, Procurement, and Construction) general contracting services to the Group according to the engineering project general contracting agreements obtained by CNPGC Group through bidding process.

Under the EPC General Contracting Service Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) Under the EPC General Contracting Service Framework Agreement, the service provider and the price of EPC general contracting services shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. The CNPGC Group shall bid by stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC and the specific requirements in bidding invitation documents made by the Group; (ii) The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the project's technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid and etc. The Group's tender committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC; (ii) reviewing, evaluating and monitoring documents from outsourcing service providers based on the technical, commercial and pricing criteria and payment terms of relevant service fees, which will ensure the terms obtained by the Group from the CNPGC Group is no less favorable than those available from independent third parties; and (iii) grading the service providers and writing recommendation advice. The Group's tender committee is responsible for deciding which service provider will be awarded the EPC General Contracting Service Framework Agreement.

The EPC General Contracting Service Framework Agreement is for a term of three years with effect from 1 January 2018 and ending on 31 December 2020. Upon expiry, the EPC General Contracting Service Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. The transactions under the EPC General Contracting Service Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the Factoring Company under the Factoring Services Framework Agreement

In order to regulate the continuing connected transactions in respect of the factoring services between the Group and the Company and Sinopherm Puxin Commercial Factoring Company Limited ("**Factoring Company**") entered into the Factoring Services Framework Agreement ("**Factoring Services Framework Agreement**") on 23 March 2018, and set up the annual caps of interests/fees payable by the Group for commercial factoring services for the nine months ended 31 December 2018 and the two years ending 31 December 2020 under the Factoring Services Framework Agreement to be RMB75 million, RMB100 million and RMB100 million, respectively.

Pursuant to the Listing Rules, the Factoring Services Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the nine months ended 31 December 2018 and the two years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to the Factoring Services Framework Agreement, the Factoring Company will provide recourse and non-recourse factoring and other commercial factoring services (including sales sub-account management services, accounts receivable collection services and other permitted business of the Factoring Company) to the Group.

Pursuant to the Factoring Services Framework Agreement, the comprehensive pricing (including interest and fees) of the commercial factoring services charged by the Factoring Company shall be fair and reasonable and shall not be higher than the comprehensive pricing of the same commercial factoring services provided by independent third parties to the Group during the same period.

The Factoring Services Framework Agreement shall be effective from 23 March 2018 to 31 December 2020. Upon expiry, the Factoring Service Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 23 March 2018.

CNPGC Factoring Company is a subsidiary of the Company's ultimate controlling shareholder, and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Factoring Services Framework Agreement constitute continuing connected transactions of the Company.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2019 has followed the pricing principles of such continuing connected transactions.

The independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that these transactions had been entered into:

i. in the ordinary and usual course of business of the Group;

ii. either on normal commercial terms or on terms no less favourable to the Company; and

iii. in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed-upon procedures in respect of the continuing connected translations and the auditors have reported the factual findings on these procedures to the Board.

The auditors of the Company had informed the Board and confirmed that with respect to the above-mentioned continuing connected transactions, they did not:

i. notice anything that would lead them to believe that the above-mentioned continuing connected transactions have not been approved by the Board of the Company;

ii. for the transaction involving the provision of goods or services by the Group, notice anything that would lead them to believe that the transaction was not conducted in accordance with the Group's pricing policy in all material aspects;

iii. notice anything that would lead them to believe that the above-mentioned continuing connected transactions was not conducted in accordance with the relevant transaction agreement in all material aspects; and

iv. notice anything that would lead them believe that the above-mentioned continuing connected transactions exceeded the cap set by the Company.

Save as disclosed above, for the year ended 31 December 2019, there is no other related party transaction or continuing related party transaction set out in Note 45 to the Consolidated Financial Statements which constitutes discloseable connected transaction or continuing connected transaction under the Listing Rules. In respect of the connected transactions and the continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules (as amended from time to time).

Directors' and Supervisors' Service Contracts

Each of the Directors and Supervisors has entered into a service contract with the Company. None of the Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Biographies of Directors, Supervisors and Senior Management

Biographies of the Directors, Supervisors and senior management are set out from page 39 to 50 of this annual report.

The list of Directors during the Reporting Period and as at the date of this report (unless otherwise stated) is set out below:

Name	Position	Commencement Date	Expiry Date
Executive Directors			
Li Zhiming	executive Director	21 September 2017	20 September 2020
Yu Qingming	executive Director	28 December 2018	20 September 2020
Liu Yong	executive Director	18 December 2017	20 September 2020
Non-executive Directors			
Chen Qiyu	non-executive Director	21 September 2017	20 September 2020
Wang Qunbin (resigned)	non-executive Director	21 September 2017	22 March 2019
Ma Ping	non-executive Director	21 September 2017	20 September 2020
Hu Jianwei	non-executive Director	28 December 2018	20 September 2020
Deng Jindong	non-executive Director	21 September 2017	20 September 2020
Wen Deyong	non-executive Director	21 September 2017	20 September 2020
Guan Xiaohui	non-executive Director	8 March 2019	20 September 2020
Dai Kun	non-executive Director	27 June 2019	20 September 2020
Independent Non-executive Directors			
Yu Tze Shan Hailson	independent non-executive Director	21 September 2017	20 September 2020
Tan Wee Seng	independent non-executive Director	21 September 2017	20 September 2020
Liu Zhengdong	independent non-executive Director	21 September 2017	20 September 2020
Zhuo Fumin	independent non-executive Director	21 September 2017	20 September 2020
Chen Fangruo	independent non-executive Director	28 December 2018	20 September 2020

Remunerations of Directors, Supervisors, Senior Management and Five Highest Paid Individuals

The Remuneration Committee determines and makes recommendation to the Board (as appropriate) on the remuneration and other benefits payable to the Directors. The committee regularly reviews the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors based on their qualifications, experience and contributions, to attract and retain its Directors as well as to control costs.

Details of the remuneration of the Directors and Supervisors in 2019 are set out in Note 50 to the Consolidated Financial Statements.

Details of the five highest paid individuals of the Group in 2019 are set out in Note 11 to the Consolidated Financial Statements. Details of the remuneration of the current senior management of the Company by band for the year ended 31 December 2019 are set out as follows:

Range	Number of individuals
Below RMB3,000,000	10
RMB6,000,000 to RMB9,000,000	1
RMB9,000,000 and above	1

Interests of Directors and Supervisors in Transaction, Arrangement or Contract

Save as the non-exempt continuing connected transactions disclosed in this annual report, for the year ended 31 December 2019, there was no transaction, arrangement and contract of significance to which the Company, its holding company, its subsidiaries or a subsidiary of its holding company was a party and in which a Director, Supervisor or their connected entity has or had at any time during that period, in any way, whether directly or indirectly, a material interest.

Interests of Directors in Competing Business

As at 31 December 2019, none of the Directors of the Company has any interests in the competing business which would be required to be disclosed under Rule 8.10 of the Listing Rules.

Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2019, the interests or short positions held by the Directors, Supervisors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code are as follows:

Name	Class of shares	Nature of interest and the capacity	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
Li Zhiming	H shares	Beneficial owner	174,200	0.01	0.01	Long position
Yu Qingming	H shares	Beneficial owner	100,000	0.00	0.01	Long position
Liu Yong	H shares	Beneficial owner	140,700	0.00	0.01	Long position
Jin Yi	H shares	Beneficial owner	1,200	0.00	0.00	Long position

Note: The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk), the above-mentioned "approximate percentage to the total number of shares of the Company" is calculated based on the total number of issued shares of the Company of 2,971,656,191 as at 31 December 2019, and the "approximate percentage to the relevant class of shares" is calculated based on the total number of issued H shares of the Company of 1,192,810,740 as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, none of the Directors, Supervisors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

Rights to Purchase Shares or Debentures of Directors, Supervisors and Chief Executive

No arrangements to which the Company, any of its subsidiaries, its holding company or any subsidiary of its holding company is or was a party enabling the Directors, Supervisors and the chief executive of the Company to acquire benefits by means of acquisitions of shares or debentures of the Company or any other body corporate subsisted during the Reporting Period.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2019, to the best knowledge of the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Class of shares	Nature of interest and capacity	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
CNPGC	Domestic shares	Beneficial owner	207,289,498 (Note 2)	6.98	11.65	Long position
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 2)	52.88	88.35	Long position
Sinopharm Investment	Domestic shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	52.88	88.35	Long position
Fosun Pharma	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 3)	52.88	88.35	Long position
Fosun High Technology	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 4)	52.88	88.35	Long position
Fosun Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 5)	52.88	88.35	Long position
Fosun Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 6)	52.88	88.35	Long position
Fosun International Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 7)	52.88	88.35	Long position
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 8)	52.88	88.35	Long position
Citigroup Inc.	H Shares	Interest of controlled corporation	4,322,283 645,630	0.14 0.02	0.36 0.05	Long position Short position
		Approved lending agent (Note 9)	67,248,609	2.26	5.63	Long position
Invesco Advisor Inc	H Shares	Investment manager	62,952,800	2.12	5.27	Long position
BlackRock, Inc.	H Shares	Interest of controlled corporation (Note 10)	95,661,814 167,600	3.21 0.00	8.02 0.01	Long position Short position
JPMorgan Chase& Co.	H Shares	Interest of controlled corporation	16,361,906 8,806,708	0.55 0.29	1.37 0.73	Long position Short position
		Investment manager	15,657,252	0.52	1.31	Long position
		Person having a security interest in shares	576,545	0.01	0.04	Long position
		Approved lending agent (Note 11)	54,857,753	1.84	4.59	Long position
State Street Bank & Trust Company	H Shares	Approved lending agent	59,688,390	2.00	5.00	Long position

Notes: The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(1) Such 1,571,555,953 domestic shares belong to the same batch of shares.

(2) CNPGC is interested in 207,289,498 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Industrial Investment Co., Ltd. ("**Sinopharm Investment**"). As CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.

(3) Fosun Pharma is the beneficial owner of 49% equity interest in Sinopharm Investment and, therefore, Fosun Pharma is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(4) Fosun High Technology (Group) Co., Ltd. ("**Fosun High Technology**") is the beneficial owner of 38.10% equity interest in Fosun Pharma and, therefore, Fosun High Technology is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(5) Fosun International Ltd. ("**Fosun Company**") is the beneficial owner of 100% equity interest in Fosun High Technology and, therefore, Fosun Company is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(6) Fosun Holdings Ltd. ("**Fosun Holdings**") is the beneficial owner of 70.80% equity interest in Fosun Company and, therefore, Fosun Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(7) Fosun International Holdings Ltd. ("**Fosun International Holdings**") is the beneficial owner of 100% equity interest in Fosun Holdings and, therefore, Fosun International Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(8) Mr. Guo Guangchang is the beneficial owner of 85.29% equity interest in Fosun International Holdings and 0.004% equity interest in Fosun Pharma and, therefore, Mr. Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(9) Citigroup Inc. is interested in 71,570,892 H Shares of the Company in an aggregate in long position (including 67,248,609 H Shares available for lending) in long position and 645,630 H Shares in short position.

(10) BlackRock, Inc. is interested in the long positions of 95,661,814 H shares of the Company and short position of 167,600 H shares indirectly through a series of controlled corporations.

(11) JPMorgan Chase & Co. is interested, in an aggregate of long position of 87,453,456 H shares (of which 54,857,753 are H shares available for lending) and short position of 8,806,708 H shares of the Company.

(12) The above-mentioned "approximate percentage to the total number of shares of the Company" is calculated based on the 2,971,656,191 total number of issued shares of the Company as at 31 December 2019. For H shares, the term of "approximate percentage to the relevant class of shares" is calculated based on the total number of issued H shares of the Company of 1,192,810,740 as at 31 December 2019. For domestic shares, the term of "approximate percentage to the relevant class of shares" is calculated based on the total number of issued domestic shares of the Company of 1,778,845,451 as at 31 December 2019.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2019, no person (other than the Directors, Supervisors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association and the laws of the PRC which oblige the Company to offer pre-emptive rights of new shares to existing shareholders on their shareholding proportion.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, there was sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules during the year of 2019 and as at the latest practicable date prior to the issue of this annual report.

Management Contract

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Reporting Period.

Pension Scheme

During the Reporting Period, details of the pension scheme of the Group are set out in Note 37 to the Consolidated Financial Statements.

Donation

During the Reporting Period, details of the donation of the Group are set out in Note 9 to the Consolidated Financial Statements.

Environmental Policy and Performance

Since its establishment, the Company has established the environmental protection management system according to the Chinese laws, regulations, technical specifications, technical standards and systems relating to the environmental protection. It provides guidance and assistance in the environment protection work assigned in the budget objective and work scheme for all the companies affiliated to the subsidiaries, and then conducts supervision, management and appraisal. Each affiliated company has included the environmental protection, energy conservation and emission reduction into their medium and long-term development planning and annual plan, established and improved the management system and various rules and regulations in relation to the environmental protection, energy conservation and emission reduction, abided by relevant local and national laws, regulations and emission standards, and fulfilled the measures and responsibilities for the environmental protection, energy conservation and emission reduction. The industrial enterprise subordinate to the Company has established and implemented the ISO14001 Environmental Management System Certification.

The Company has formulated a series of management systems including the Administrative Measures for Environmental Protection, the Administrative Measures for Clean Production, the Administrative Measures for Hazardous Waste, and the Emergency Plan for Environmental Accidents, specifying responsibilities of employees at various levels in terms of the environmental protection, energy conservation and emission reduction, and strengthening the environmental protection consciousness of all the companies. The responsible person of each subsidiary shall be primarily responsible for the environmental protection of all the subsidiaries, and the performance shall be included into the annual appraisal index of the responsible person of such subsidiary, in order to enhance the environmental protection responsibility and consciousness of the leaders of all the subsidiaries. The target-oriented responsibility system shall be adopted in the management with the responsible person of the subsidiary primarily responsible for the environmental protection.

Entrusted Deposit and Matured Time Deposit

As at 31 December 2019, the Company had not held any deposits under trust or any time deposit in any financial institution in the PRC which could not be withdrawn upon maturity.

Tax Relief and Exemption

Save as disclosed in this annual report, the Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

Confirmation of Independence by Independent Non-executive Directors

The Company had received annual confirmation of independence from each of the independent non-executive Directors. Based on the confirmation, the Company considers that all independent non-executive Directors are independent under the Listing Rules.

Auditor

The financial statements set out in this annual report have been audited by Ernst & Young.

By Order of the Board
Sinopharm Group Co. Ltd.
Li Zhiming
Chairman

Shanghai, the PRC
29 March 2020

Report of the Supervisory Committee

During the Reporting Period, all members of the supervisory committee of the Company (the "**Supervisory Committee**") have complied with the principle of integrity and earnestly performed their supervisory duties in accordance with the relevant regulations set out in the PRC Company Law, the Articles of Association and Rules of Procedures for the Supervisory Committee of the Company to protect the interests of the shareholders and the Company.

Works of The Supervisory Committee During the Reporting Period

For the year 2019, the Supervisory Committee held two meetings and the details are as follows:

On 22 March 2019, the third meeting of the fourth session of the Supervisory Committee was convened to consider and approve the "Report of the Supervisory Committee of 2018", "2018 Annual Results" and "Resolution on Determination of 2019 Remuneration of Supervisors of the Fourth Session of the Supervisory Committee".

On 23 August 2019, the fourth meeting of the fourth session of the Supervisory Committee was convened to consider and approve the "2019 Interim Results".

Comments of The Supervisory Committee on Certain Matters of The Company in 2019

During the Reporting Period, the members of the Supervisory Committee adhered to the principles of fidelity and accountability to all shareholders and duly performed their duties and works according to the relevant laws and regulations. The Supervisory Committee worked actively, supervised the regulatory compliance and operation, financial condition, use of proceeds and internal control, etc. of the Company through attending shareholders' general meetings and board meetings as non-voting delegates and onsite inspections. The Supervisory Committee has arrived at the following opinions:

1. Regulatory compliance of the operation of the Company. During the Reporting Period, the Board earnestly exercised the rights and performed the obligations conferred by the PRC Company Law and the Articles of Association to make decisions in time on material matters including production and operation plans and development objectives, and implemented all resolutions adopted by the shareholders' general meetings and board meetings. Senior management managed and operated the Company in compliance with laws and regulations. The Directors and senior management have fulfilled obligation of integrity without violating any laws or Articles of Association or committing any action which may be against the interests of shareholders.

2. Evaluation of financial condition of the Company. During the Reporting Period, the Supervisory Committee has supervised and reviewed the financial structure and position of the Company. The Supervisory Committee is of the opinion that the financial structure of the Company was healthy and standardized and the Company was in a good financial position. The 2019 Audit Report of the Company has truly, accurately and completely reflected the financial condition, results of operation and cash flows of the Company.

3. The use of funds raised by the Company. The Supervisory Committee is of the opinion that the use of proceeds complied with the provisions of relevant laws and regulations and the Articles of Association without violating the interests of the Company and its shareholders. The Supervisory Committee will continue to supervise and monitor the use of proceeds.

4. Acquisition and disposal of assets of the Company. The acquisitions and disposals of the assets of the Company during the Reporting Period were based on fair and reasonable prices. No insider dealing or any action that may injure shareholders' interests or cause any loss of assets of the Company has been found.

5. Connected transactions of the Company. During the Reporting Period, the connected transactions between the Company and all connected persons conformed to applicable regulations of the Hong Kong Stock Exchange. The connected transactions were based on fair and reasonable prices and were carried out in accordance with the principles of reasonableness, fairness and justice. No harm to the interests of the Company and unrelated shareholders has been found.

6. Preparation and review of annual report of the Company. The preparation and review procedures of the 2019 annual report of the Company conformed to all the relevant regulations of the China Securities Regulatory Commission and the Hong Kong Stock Exchange. No breach of confidentiality provisions by any person involved in the preparation or review of annual report has been found.

In the coming year, the Supervisory Committee will continue to arduously perform its supervisory and monitoring duties with an aim to strengthen the overall competitiveness and sustainable profitability of the Company and to protect the interests of shareholders and the Company.

Yao Fang
Chief Supervisor

Shanghai, the PRC
29 March 2020

Environmental, Social and Governance Report

To comply with the requirements set out in the Environmental, Social and Governance Report Guide issued by the Stock Exchange of Hong Kong Limited in December 2015, the Company hereby submits its Environmental, Social and Governance Report (the "**ESG Report**") from 1 January 2019 to 31 December 2019. This report is the Environmental, Social and Governance Report of the Company and its subsidiaries, and adopts the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide.

The Company's Board of Directors is responsible for its ESG strategies and reporting, including the assessment and identification of ESG risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. We have appointed our business function department to review the Group's operation and have internal discussions to identify relevant ESG matters and assess the importance of such matters to our business and stakeholders. The management has confirmed the effectiveness of ESG risk management and internal control systems to the Board of Directors. The identified major ESG matters have been included in this ESG Report according to the general disclosure requirements of the ESG Report Guide, in order to disclose the Group's ESG performance during operation on a balanced basis.

1. Communication with Stakeholders

The Company has a wide range of stakeholders, including shareholders/investors, government/regulators, employees, customers, suppliers/partners, the environment, communities/the public. By collecting opinions and fully understanding shareholders' expectations, it carries out social responsibility practices and balances the interests of the Group and stakeholders.

Communication with and Participation of Stakeholders

Stakeholders	Method of Communication	Expectations and Demands
Shareholders/ investors	• General meetings • News release and announcement • Company report • Website publishing • Meetings of the investors and road show	• Ensuring shareholders' rights and interests • Information disclosure • Compliance operation and management • Anti-corruption
Government/ regulators	• Conferences • Compliance report • Field inspection • Participation in meetings/seminars • Special inquiry/inspection • Proper submission of documents	• Legal and compliance regulation • Quality management system • Drug quality safety • Employee health • Safety management
Employees	• Labor contract • Trade union • Employee forum and assembly • Employee party • Manger's mailbox • Voluntary activities • Daily communication	• Equal employment • Employee benefits • Construction of labor union • Employee health • Safety management • Employee training • Assessment and promotion

Stakeholders	Method of Communication	Expectations and Demands
Customers	• Daily operation/interaction • Customer satisfaction survey • Regular visits • Industry exhibitions and forums • Customers service center/hotline	• Logistics quality management • Drug quality and safety • Product recovery • Customer satisfaction and compliant handling • Consumer privacy protection
Suppliers/partners	• High-level meetings • Seminars and meetings • Marketing summits • Supplier evaluation • Field visit • Daily communication	• Supplier code of conduct • Supplier management
Environment	• Environmental inspection • Environmental disclosure report • Implementation of green operation and management	• Environmental protection system • Publicity of environmental protection • Energy saving and emission reduction • Green office
Communities/the public	• Voluntary activities • Charity activities • Sponsorship of public service activities	• Charitable health care • Concerned about disaster areas • Poverty alleviation

2. Product Liability

As China's largest distributor of pharmaceutical and healthcare products and a leading provider of supply chain service, the Company takes a lead in pursuit of product quality, upgrading of industry standards, purification of industry market and sound development of the industry.

Quality Management System

The Company has established the sound ISO9001&GSP integrated quality management system since 2006 and prepared the Quality Management Manual as the company wide integrated code of conduct in the quality management system, which is helpful to the transparency and systematic character of the process and lays a solid foundation for the Company's rapid development by analyzing and understanding the internal and external situations of the Company to prevent various quality risks, thus achieved the expected results and win the trust of customers and stakeholders. The Company signs the Responsibility Letter for Quality Management with every general manager of its second-tier subsidiaries every year who follows the responsibility requirements of the Responsibility Letter for Quality Management and is responsible for their company's operation and implementation of the quality management system and for reporting the effectiveness and performance of the implementation of the quality management system to the quality management representatives and the President of the Company.

Qualification Certificates

GSP

- Implementation of the GSP system is a scientific and advanced management measure to ensure the drug quality and generally adapted to the international trend for drug quality management at the same time. As China's largest distributor of pharmaceutical and healthcare products and a leading provider of supply chain service, the quality management department of the Company's headquarters provides high-quality drugs for the market by GSP management and promotes the quality management of China's pharmaceutical business to be modern and international.

ISO9001

- On 1 April 2007, the Company obtained the ISO9001:2000 Quality Management System Certification from an international certification company that ranked top in the world in the field of certification, safety and quality inspection. After continuous improvement every year, the Company passed the ISO9001:2008 renewal certification in April 2016 and the ISO9001:2015 renewal certification in April 2018, continuing to meet the requirements of ISO9001. After including its second-tier subsidiaries into ISO9001&GSP integrated quality management system, the Company has expanded the ISO&GSP integrated quality management system to certain third-tier subsidiaries in the past three years, so as to prevent the occurrence of related quality risks by continuously expanding the integrated quality management system and controlling various quality-related operating processes.

ISO27001

- The Company has established the Information Security Management System (ISMS) according to ISO27000:2005 standard system. After more than one year of continuous and steady operation, Sinopharm Logistics Co., Ltd. subordinate to the Company passed through the formal audit of the international certification authority in 2011 and obtained certificates issued by UKAS (United Kingdom Accreditation Service) and CNAS (China National Accreditation Service for Conformity Assessment), becoming the first pharmaceutical enterprise in China passing through ISO27001 international information security certification.

At the beginning of each year, the Company issues overall quality targets related to the quality of drugs and medical devices to its subsidiaries. Subsidiaries are required to prepare rules for the implementation according to the "decomposition index and implementation plan of policy targets", conduct regular self-examination and assessment of the achievement of objectives and implementation of plans and timely correct problems once found to ensure the effective operation of the quality management system and the comprehensive implementation of the overall quality target of subsidiaries. The quality management department of the Company's headquarters strictly follows the audit plan developed at the beginning of the year and combines with key management points to complete the audit of second-tier subsidiaries. For third-tier subsidiaries with relatively poor performance, the quality management department carries out focused inspection and provide special guidance, issues an audit report for each audit detailing the risk reminders of relevant defects, and requires subsidiaries to submit a rectification report against defects, clarify rectification measures and estimated time of completion, and track the implementation details of rectification, thus gradually improve the quality control level of subsidiaries.

In 2019, the Company successfully passed the ISO9001:2015 system supervision and audit, and obtained the qualification certificate. In order to further improve the quality control system, the Company revised four quality control systems to effectively guide the regular and orderly conduct of various daily business activities. At the same time, the Company organized five training sessions on regulations, systems and policies. In particular, in response to the new Drug Administration Law, the Company developed online training courseware in a timely manner and pushed it to subsidiaries through the Sinopharm University APP to enable employees at all levels to have a preliminary understanding of the implementation of the new law, providing thoughts for business quality management after the implementation of the new law. The timely organization of various training on quality enables personnel of the Company at all levels to deepen their understanding of various new laws and regulations, quality system construction and the Company's rules and regulations. The improvement of employees' quality capability and applying it to real activities will better increase enterprise's core competitive advantage.

Logistics Quality Management

As a leading enterprise in the pharmaceutical logistics industry, the Company regards logistics quality as the top priority. For the compliance and safety management of drugs in stock, the Company has formulated corresponding operating procedures, such as the Regulations on Management of Drug Receipts, Regulations on Management of Drug Acceptance, Regulations on Management of Drug Storage, Regulations on Management of Drug Conservation, Regulations on Management of Drug Outbound Review, Regulations on Management of Drug Delivery and Handover, Regulations on Management of Drug Transportation and Delivery, and Regulations on Management of Carriers, to ensure that the receipt, inspection, storage, distribution, and carrier management of drugs are all safe and relevant personnel have corresponding abilities and experience to ensure that the goods can be properly handled and stored in all stages.

In order to ensure that the temperature range of products in stock and in-transit meets the product requirements, the Company attaches great importance to the facilities and equipment, temperature monitoring, safety monitoring, information management, and vehicle management involved in product storage. The Company has formulated system files such as Regulations on Management of Facility Equipment, Regulations on Management of Safety, Detailed Regulations on Management of Temperature and Humidity, Regulations on Management of Information and Regulations on Management of Transport Vehicle, which set clear requirements for temperature control equipment, temperature monitoring systems, hydropower supply management, firefighting equipment, vehicle dispatching and maintenance, etc. for product storage regulation. The Company regularly maintains facilities and equipment to ensure their effective operation, thereby effectively controlling risks during product storage and transportation.

Traceability of drugs is an important management issue in the medical industry. The Company traces the quality status in case of a quality problem or customer feedback to achieve source management. The Company uses computer systems to control the entire process of the product, including supplier, product name, manufacturer, batch number, quantity, and quality status. For abnormal conditions of the product in stock or in transit, the Company will implement a lock-up procedure and provide immediate feedback to the owner of the product, and deal with the condition in accordance with the owner's instructions. In-stock products are managed by dedicated personnel in accordance with the product quality status to ensure that the product's quality status in-stock can be traced throughout the process.

The Company develops annual training plans pursuant to Regulations on Training Management, and regularly organizes training for relevant employees to ensure that their operation was accurate and quality risk management was under control throughout the process.

In 2019, in accordance with the requirements of the newly issued Vaccine Administration Law and the revised Drug Administration Law of the state, the Company sorted out the quality system files and revised and improved the relevant regulations of the quality system. All employees received training and education on new laws and regulations to ensure that personnel in relevant departments strictly followed the amended laws and regulations and effectively implemented them in actual operation. The quality management department inspected the implementation of changes in regulations by relevant departments of relevant departments, and found no major violations. Regular inspections and checks of daily work and work after changes in regulations provide a basis for the Company's continuous improvement, ensure the Company's compliant operation, and effectively control risks in the operation process.

Drug Quality Safety

The Company keeps focus on the industry trend, maintains consistent with Chinese laws and regulations. The Company strictly complies with the laws and regulations on product management such as the Drug Administrative Law, the Implementation Regulations of Drug Administrative Law, Good Supply Practices for Pharmaceutical Products, Regulations on the Supervision and Administration of Medical Devices, and Medical Device Operation Quality Management Rules, and always releases notices or announcements timely, to ensure its operation meets the latest Chinese laws and regulations.

Throughout the year, the Company was not no subject adverse public opinions caused by phytotoxicity incidents of subsidiaries, which effectively safeguard the compliance culture of Sinopharm, preventing and controlling overall business quality risks.

Cases

- In 2019, the Company's headquarters received 5 special inspections by the Shanghai Market Supervision and Administration Bureau (上海市市場監督管理局) on special administrative drugs, fentanyl drugs and precursor drugs. No major and serious defects were found, and the inspection pass rate was 100%.

- In 2019, the Company's headquarters received the on-site inspections from each of Shanghai Municipal Market Supervision Administration and the Changning District Market Supervision Administration (長寧區市場監督管理局) on the change of registered address. It successfully passed both inspections and obtained the permission of change.

- In 2019, the Company's subsidiaries received 2,115 external inspections. No major non-compliances were found, and all requirements were met.

Customer Satisfaction and Complaint Handling

With the philosophy of "Customer is the foundation of the enterprise", the Company has committed itself to providing customers with efficient and high-quality services to meet their needs and gain their satisfaction and loyalty to create a super brand. The Company has developed the Regulations on Management of Customer Satisfaction. It gained the customer perception through home visits, written questionnaires and other ways, and indirectly confirmed the customer satisfaction through comparison with other competitors in the industry. In addition, it periodically prepared the Analysis Report of Customer Satisfaction, and included the customer satisfaction rate and customer satisfaction trends into the performance management as important assessment indicators of relevant departments.

The Company developed a series of management systems related to customer inquiry and complaint, such as Regulations on Management of Quality Inquiry and Regulations on Management of Customer Complaint Handling. When customers have questions or demands on the Company's operation of drugs or medical devices, they can submit a query to the Company by visits, letters, fax, telephone, mail and other ways, and the Company shall upon the receipt of the query, make an investigation and provide feedback. In the event that any customer is unsatisfied for the quality of products and services does not confirm to the standards, the quality management department shall timely take containment measures such as product recall/recovery after verification through investigation to prevent further loss to the customer. Relevant departments shall determine jointly the cause of the complaint and make correct measures to better satisfy customers.

Product Recovery

The Company has made active response to the reasonable return request put forward by customers to improve both customer satisfaction and corporate reputation, and has formulated the Regulations on Management of Sales Return which puts clear rules on return requirement, return way, returned material acceptance inspection, system operation process and approval authority, etc. The Company has prepared the Regulations on Management of Recall/Recovery in accordance with Administrative Measures for Drug Recalls. For products recalled voluntarily by suppliers, after receiving notices from suppliers, the quality management department will issue recall notices (except for the drugs that cannot be recalled as stipulated by Chinese laws and regulations) to recall relevant varieties. For recall or unqualified products after spot check noticed by CFDA, the quality management department will implement recall at the earliest time and the procurement department will inform immediately relevant suppliers, and suppliers can communicate with manufacturers at the earliest time, requesting them to actively cooperate to tackle with matters related to products with quality problems in positively cooperative manner.

Intellectual Property Rights Protection

In order to strengthen the trademark management, standardize the exclusive right to use trademark and give full play to the efficiency of trademark assets, the Company has prepared the Measures on the Management of Trademark in which the trademark application, renewal, authorization management, rights protection and other work are clearly defined. The Legal Department of the Company is responsible for establishing and perfecting trademark files and database and implementing dynamic management of trademark. In addition, it takes charge of organizing publicity and learning of legal knowledge related to trademark, actively collecting evidences against the infringement of trademark rights and timely submitting to the market supervision and administration authorities for handling or bringing a lawsuit to the people's court.

Consumer Privacy Protection

In order to protect the trade secrets of the Company, safeguard the legal rights of the Company and the security interests of enterprises and consumers, the Company prepared the Interim Provisions of Sinopharm Group Co., Ltd on the Protection of Trade Secrets. The departments and the subsidiaries at all levels of the Company are responsible for implementing the comprehensive management requirements of the Company's confidentiality work, detailing and establishing measures of confidentiality work management of related functions, and clarifying confidentiality requirements according to the actual as well as conducting the assessment, inspection, verification and improvement of the implementation process within the scope of duties. Besides, the labor contract signed by subsidiaries and employees include confidentiality provisions.

GuoDa Drug Store subordinated to the Company has prepared the Administrational Measures for Membership which stipulates specifically that to protect the security of membership data, subsidiaries shall conduct approval process management of data export for membership information. At the same time, subsidiaries are required to conduct membership data sorting and analysis at least once a month. In case of abnormal number of transactions, amount and discount information, track management needs to be performed in order to better protect the privacy and interests of members.

3. Environmental Protection

The main businesses of the Group are pharmaceutical distribution, pharmaceutical retail and medical device distribution, which have no significant impact on the environment and natural resources.

Following the enterprise mission of "All for Health, Health for All", the Company includes the environmental protection and sustainable development into the enterprise development strategy, guarantees the compliance with environmental protection laws and rules, energy conservation, emission reduction, consumption reduction and efficiency enhancement in the production and operation process, strives to reduce the impact of the production activities on the environment and human health and safety, realizes the coordinated development between production management and environmental protection, and achieves the harmony between the enterprise and the nature.

Environmental protection system

Since its establishment, the Company has established the environmental protection management system according to the Chinese laws, regulations, technical specifications, technical standards and systems relating to the environmental protection. It provides guidance and assistance in the environment protection work assigned in the annual budget objective and work scheme for all subsidiaries and companies affiliated thereto, and then conducts supervision, management and appraisal. Each affiliated company has included the environmental protection, energy conservation and emission reduction into their medium and long-term development planning and annual plan, established and improved the management system and various rules and regulations in relation to the environmental protection, energy conservation and emission reduction, abided by relevant local and national laws, regulations and emission standards, and fulfilled the measures and responsibilities for the environmental protection, energy conservation and emission reduction. The industrial enterprise subordinate to the Company has established and implemented the ISO14001 Environmental Management System Certification.

The Company has formulated a series of management systems including the Administrative Measures for Environmental Protection, the Administrative Measures for Clean Production, the Administrative Measures for Hazardous Waste and the Emergency Plan for Environmental Accidents, specifying responsibilities of employees at various levels in terms of the environmental protection, energy conservation and emission reduction, and strengthening the environmental protection consciousness of all the companies. The responsible person of the subsidiary shall be primarily responsible for the environmental protection of all the subsidiaries, and the performance shall be included into the annual appraisal index of the responsible person of the subsidiaries, in order to enhance the environmental protection responsibility and consciousness of the leaders of all the subsidiaries. The target-oriented responsibility system shall be adopted in the management with the responsible person of the subsidiary primarily responsible for the environmental protection. At the beginning of 2019, the Company entered into the Target Responsibility Statement for Quality Management, Safe Production, Energy Conservation and Environmental Protection with all its subsidiaries with signing rate of 100%.

Publicity of environmental protection

In order to enhance the environmental protection consciousness and capability of the subsidiaries and employees, the Company includes the environmental protection training into its overall training system, actively organizes employees to participate in the training related to environmental protection organized by the external environmental protection organizations, and carries out work relating to the government's energy saving publicity week. The Company carried out publicity by posting knowledge pictorials on the bulletin boards, playing promotional videos, and posting reminders in energy saving and emission reduction scenarios. We studied the spirit of energy saving and emission reduction documents and organized energy shortage experience activities to increase the staff's sense of urgency regarding lack of resources and improve their environmental protection awareness.

Energy conservation and emission reduction

With the aim of strengthening the environmental protection, energy conservation and emission reduction, effectively controlling the key pollutant discharge and saving energy, promoting the sustainable and efficient development, and preventing the adverse impact of the planning and construction projects upon implementation on the environment, the Company amends and improves the Detailed Rules for the Implementation of the Environmental Protection, Energy Conservation and Emission Reduction in accordance with relevant laws, regulations, emission standards and industrial policies such as the revised Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Conserving Energy, and the Interim Measures for the Supervision and Management of Energy Conservation and Emission Reduction by Central Enterprises.

All the industrial enterprises subordinate to the Company have signed the monitoring contract with the local environmental monitoring authority, entrusting the local environmental monitoring station with the regular monitoring of the waste gas, waste water and noise at boundary of industrial enterprises. In order to further standardize the environmental protection management and strengthen the pollution prevention and control, in addition to accepting the supervision by external organizations such as the local environmental protection authority, all the subordinate industrial enterprises have established and improved the statistical monitoring system for the environmental protection, energy conservation and emission reduction, strengthened the statistical monitoring of the energy consumption and pollutant emission in the production and operation, eliminated the possible environmental risks and hidden hazards in the production and operation, and improved the appraisal system and reward & punishment measures in accordance with the Administrative Measures for the Supervision and Appraisal of the Environmental Protection, Energy Conservation and Emission Reduction by Sinopharm Holding. In 2019, all the major emissions from the subordinate industrial enterprises including COD and SO2 were disposed of in compliance with the relevant rules, and all the sewage and waste gas were discharged in consistency with relevant standards.

The subordinate industrial enterprises have also formulated the Analysis System for Energy Utilization Situations, stipulating that the technical and economic analysis shall be made on the main energy consuming equipment, process system and energy utilization conditions on a regular basis. Necessary tests and statistical analysis of energy consumption are combined to determine the level of energy consumption, explore the potential of energy conservation, fix the direction of energy conversation, and provide the scientific basis for the improvement of energy management, transformation of energy-saving technology and enhancement of energy utilization ratio.

The Company encourages its subsidiaries to apply new technology, new material, new process and new equipment in the energy conservation and emission reduction, and obvious energy-saving effect has been achieved through the energy-saving modification works such as boiler retrofitting, energy conservation of motor system, optimization of energy system and utilization of residual heat and pressure.

In 2019, the amount of pollutants emitted by the Group was set out below:

	2019	2018	Change
Exhaust emission (ton)			
Total emission amount of NOX	**74.10**	65.78	12.65%
Total emission amount of SOX	**0.23**	0.19	21.05%
Total emission amount of PMx	**6.79**	6.04	12.42%
Greenhouse gas emission (ton)			
Including: Total greenhouse gas emission amount of range 1	**37,435.63**	30,741.54	21.78%
Total greenhouse gas emission amount of range 2	**105,924.73**	88,611.47	19.54%
Unit greenhouse gas emission (ton per person)			
Greenhouse gas emission of range 1	**0.40**	0.44	-9.09%
Greenhouse gas emission of range 2	**1.13**	1.27	-11.02%
Total amount of direct/indirect energy consumption by type (MWh)			
Electricity	**136,237.57**	115,208.83	18.25%
Heat	**33,279.62**	25,709.94	29.44%
Diesel	**69,918.89**	62,795.17	11.34%
Gasoline	**66,227.71**	50,502.28	31.14%
Unit amount of direct/indirect energy consumption (MWh per person)			
Electricity	**1.45**	1.65	-12.12%
Heat	**0.35**	0.37	-5.41%
Diesel	**0.75**	0.90	-16.67%
Gasoline	**0.71**	0.72	-1.39%
Total water consumption amount (cubic meter)	**1,607,033.20**	1,191,321.36	34.90%
Unit water consumption amount (cubic meter per person)	**17.14**	17.09	0.29%
Total amount of non-hazardous waste (ton)			
Office waste	**3,635.59**	2,703.91	34.46%
Unit amount of office waste (ton per person)	**0.04**	0.04	0.00%
Total amount of hazardous waste (ton)			
Chemical Oxygen Demand (COD)	**0.52**	0.84	-38.10%
Biochemical Oxygen Demand (BOD)	**0.06**	0.13	-53.85%
NH3-N	**0.01**	0.22	-95.45%
Unit amount of hazardous waste (kg per person)			
Chemical Oxygen Demand (COD)	**0.01**	0.01	0.00%
Biochemical Oxygen Demand (BOD)	**0.00**	0.00	0.00%
NH3-N	**0.00**	0.00	0.00%
Total amount of packaging material used by finished products (ton)			
Carton	**2,349.00**	2,210.00	6.29%
Packing bottle	**2,597.00**	2,890.87	-10.17%

Note:

(1) Range 1 includes direct greenhouse gas emission generated by businesses owned or controlled by the Group; range 2 includes indirect greenhouse gas emission generated by the Group's internal consumption.

Green office

The green office can not only promote energy conservation but also mitigate environmental pollution. It can not only protect the environmental but also bring low cost to the Company. The Company takes several measures to realize the green office with saved energy and reduced emission as follows: strengthening the management of power conservation in lighting, reducing the power consumption of lighting equipment by making full use of natural lighting, turning off lights before leaving the office to prevent the lighting in the daytime and always-on lighting, and reducing the lighting in the public area in the night; sourcing water mainly from municipal water supply, strengthening the daily maintenance and management of the water-consuming equipment, and preventing the running, spillage, dripping, leakage and constant running of water to save water; making the general notification and data transmission via the Internet to reduce the data printing (copying) in paper, and making repeated use of the low-value consumables such as document envelopes and clips.

4. Protection of Rights and Interests

Regarding employees as the core resources and most precious treasure, following the principle of respect for employees, cultivation of employees and service for employees, the Company conducts the people-oriented management and strives to provide a safe and healthy working environment and a harmonious cultural environment for all the employees, in order to promote the Company's development and social progress.

The Company has formulated a set of HR management systems such as the Administrative Measures for the Employee Remuneration of the Functional Departments of Sinopharm Holding and the Administrative Measures for the Annual Income of the Operators of the Secondary Subsidiaries of Sinopharm Holding in strict accordance with relevant policies, laws and regulations such as the Labor Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China, and established a fair, reasonable and competitive remuneration system that can attract and retain core employees of the Company based on the principle of fairness and incentive.

Honors in 2019

Most Socially Responsible Employer – Zhaopin.com, Employer with Outstanding Reform – Liepin.com

Equal employment

The Company recruits employees on an equal basis following the principle of openness and fairness, considering their merits, and opposes the employment discrimination in various forms, enters into labor contracts with employees, and protects employees from any discrimination due to the race, religion, physical disability, gender, sexual orientation, association member, marital status, etc.

In terms of working hours, in accordance with national laws and regulations, the Group has adopted a variety of forms to calculate attendance for employees in different positions based on work nature, including standard working hours (daily working hours of no more than 8 hours), comprehensive working hours and irregular working hours, so as to ensure the rights and interests of employees while improving work efficiency.

In terms of employee resignation, the Group has clearly stipulated that employees have the right to submit resignation to the Company during the performance of their labor contracts. Employees within the probation period shall submit a written resignation to the head of the department 3 days in advance, and regular employees shall submit the resignation to the head of the department 30 days in advance. The Company has the right to terminate the labor contract in case of malpractice, violation of the Company's management regulations, violation of the operation rules that results in the injury or death of others or losses of the Company, and criminal sanction or criminal detention.

The Group strictly implements the regulations of the state government on workers' holidays to ensure that employees are fully entitled to annual leave, personal leave, sick leave, marriage leave, maternity leave, and various national statuary holidays.

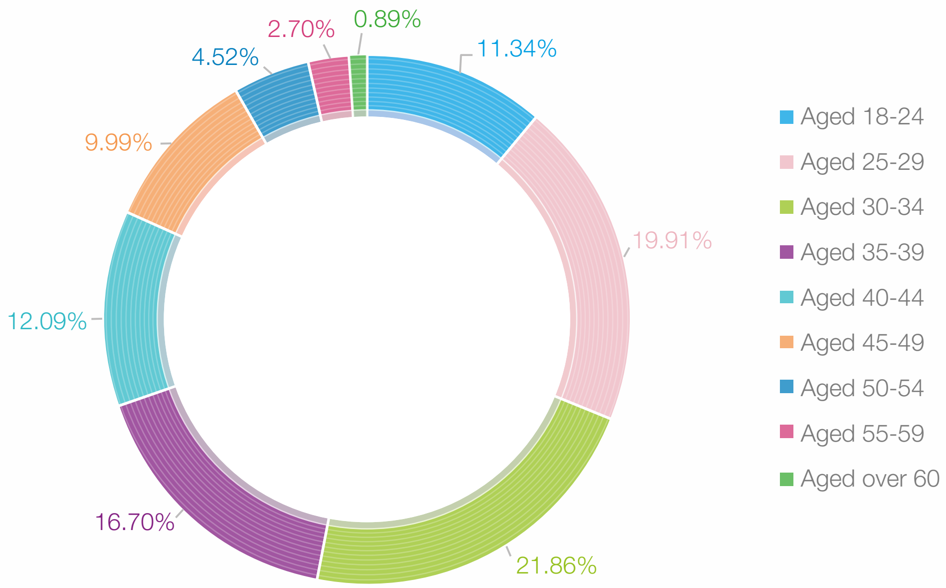
Meanwhile, the Company prohibits the employment of child laborers, compulsory work and arrangement of the underage employees with the prohibited work. All the employees comply with the statutory working age.

The Company has established the information management platform based on the HR information system, covering 1,067 subsidiaries at all levels. As an effective HR management tool, the HR information system has realized the basic HR management in the electronic form, strengthened the supervision on the organization setting, staffing management and employee recruitment and dismissal, and exported five statements of organization and personnel module and analysis of 25 HR indexes on a regular basis, which prevents any employment in violation of the Labor Law of the People's Republic of China and Law of the People's Republic of China on the Prevention of Juvenile Delinquency such as employment of child laborers.

The Company explicitly stipulates that employees may rescind the labor contract at any time where the Company forces the work by means of violence, threat or illegal restriction of personal freedom, fails to pay the labor remuneration in full amount or provide working conditions, or has other circumstances that violate the provisions of the Labor Contract Law of the People's Republic of China.

Meanwhile, the Company chooses outstanding talents suitable to the Company's development through multi-channel social recruitment and internal selection, and notifies the newly recruited employees of the recruitment conditions and working situations such as the working contents, qualification, working environment, workplace, occupational hazard, safe production conditions and labor remuneration in the form of recruitment ads, job specification and interview before the recruitment procedures. Employees may directly inquire the HR Department in case of any questions.

As at 31 December 2019, the Group had 93,746 employees in total, among whom female employees accounted for 58.01%, and male employees accounted for 41.99%. The proportion of employees at various ages is as follows:



Employee benefits

The Company strictly standardizes the setting and standards for the employee benefits, and establishes the secure and competitive benefit system. The benefit system of the Company includes three parts, namely, statutory benefits, caring benefits and incentive benefits.

Statutory benefits

- The Company offers various social security benefits for all the employees such as the social insurances and housing provident funds in strict accordance with Chinese policies relating to social security, realizing a contribution rate of 100%, and guarantees all the legal holidays for employees.

Caring benefits

- The Company provides necessary caring benefits in response to the needs of employees, including lunch allowance, high-temperature/environmental allowance, physical examination, festival allowance, labor protection expenses, cash for employees' birthday/marriage/birth as gifts, and consolation money for employees' funeral and hospitalization.

Incentive benefits

- The Company offers incentive benefits in order to stimulate employees to fulfill the work tasks and achieve outstanding performance, including the vehicle and travel allowance, communication allowance, commercial insurances, enterprise annuity and local benefits, etc.

Meanwhile, in order to provide a healthy and comfortable working and living environment, the Company conducts various activities for employees to balance their work and life. It organizes the badminton activities on a regular basis, holds basketball, table tennis and swimming contests from time to time, and carries out sports activities such as long running and healthy walking, in order to improve the health of employees, relieve their working pressure, enhance the sense of belonging, and build a happy, open, healthy, friendly and harmonious working and living atmosphere for employees.

Development of labor union

Under the leadership of the Party Committee of the Company, the labor union strengthens the standardized development of the grassroots labor union, promotes the establishment of the labor union organization according to the law, gradually improves the quality of leaders in the grassroots labor unions, and strives to improve the labor union of enterprises of the Company at all levels to a new level.

5. Health and Safety

Employees' health

The Company strives to build a comfortable and healthy working and living environment for employees. It has continuously perfected the health management strictly in accordance with the Labor Law of the People's Republic of China, the Law on the Prevention and Control of Occupational Diseases and local regulations related to prevention and control of occupational diseases. The Company set up the social accountability leading team led by the Party Committee Secretary and President according to requirements in the Guiding Opinions on the Fulfillment of Social Accountability by Central Enterprises of the State-owned Assets Supervision and Administration Commission of the State Council, in order to protect the legitimate rights and interests of the employees through the continuous and effective operation and improvement of the system. The Company strictly implements the Law on the Prevention and Control of Occupational Diseases to prevent, control and eliminate occupational disease hazards, protect the health of employees, and promote production development. It comprehensively classifies the existing rules, regulations and management archives, distinguishes the health and safety hazards, and establishes the occupation health and safety management system, giving top priority to the physical and mental health of employees. There were not any employees suffering from occupational diseases in the Company and its subsidiaries in 2019.

Occupational health management

- ✓ Detect the occupational hazards at the workplace on a regular basis, erect signboards at the detection station, and record the detection result into the employees' occupational health archives.
- ✓ Install alarming devices at the poisonous and hazardous workplace susceptible to acute occupational hazards, and formulate emergency plans.
- ✓ Special persons shall be designated for the custody, regular inspection and maintenance of all the safety protection devices.
- ✓ On-site first-aid articles, equipment and protective articles shall be inspected and maintained on a regular basis to guarantee they are in normal conditions

Notification and warning of occupational hazards

- ✓ Notify the workers of the possible occupational hazards, consequences and protective measures in work, and specify them in the labour contract.
- ✓ Publicize the occupational hazards, preventive and emergency measures in the production process among workers and related parties to allow them understand the aforesaid matters.
- ✓ Erect warning signboards and instructions for the posts with occupational hazards.

Report of occupational hazards

- ✓ The Company and its subsidiaries shall report the existing occupational hazards in the production promptly and faithfully to the local competent authority according to relevant Chinese regulations, and accept the supervision according to the law.

Management of protective articles for occupational hazards

- ✓ Provide protective articles for occupational hazards of employees in accordance with the Rules for Selection of Labour Protective Articles, Chinese standards for allocation of labour protective articles and relevant regulations.
- ✓ Conduct proper management of the purchase, inspection, custody, distribution, usage, replacement and scrapping of labour protective articles according to relevant Chinese regulations.
- ✓ Educate, urge and guide employees to wear and use the labour protective articles in a correct manner according to the usage instructions.

"Three simultaneousness" in the development of occupational health

- ✓ Entrust the qualified technical service organization for occupational health with the pre-assessment of the new engineering construction projects with possible occupational hazards in the phase of feasibility demonstration according to relevant regulations.
- ✓ The construction unit shall entrust the qualified technical service organization for occupational health with the assessment of the occupational hazard control effect before the completion inspection of the construction project according to relevant regulations.
- ✓ When carrying out the completion inspection of the construction project, the protective facilities for occupational hazards shall be put into production and operation after they pass the inspection and obtain the approval document in the completion inspection of the construction project according to the law.

Safety management

The Company has amended and improved the Sinopharm Holding Safety Management Standard Manual, specifying the contents, requirements, specifications, processes and measures of the production safety management of the Company and its subsidiaries in accordance with relevant laws and regulations such as the Production Safety Law of the People's Republic of China and the Interim Measures for the Supervision and Management of Production Safety of Central Enterprises, with the purpose of further strengthening the supervision and management of the production safety of the Company, fulfilling the safe production responsibilities of the enterprise, establishing the long-term mechanism for production safety, preventing and reducing safety accidents in the production, and guaranteeing the personal health and safety of employees and the masses. The Company has formulated Regulations on Management of Business Safety of Sinopharm Holdings, which are divided into the general section, hazardous chemicals section, industrial section, logistics section, and retail section, playing a guiding role in the safety management of each business segment. In response to the needs of production safety, the Company establishes the Production Safety Committee with a subordinate office as the daily agency.

6. Development and Training

Employee training

The Company always regards human resources as the core resources, and gives top priority to the cultivation and development of employees. After years of efforts, the Company has established a standardized training management system based on the Company's strategies.

The Company provides training for employees in diversified forms such as classroom teaching, on-line study and face-to-face communication, and conducts multi-level training activities for the development of general ability, professional ability and management ability. Each year, it organizes a large number of training programs for employees, which broadens the insight, enriches the knowledge of employees, and fully enhances the competitiveness of the enterprise.

The Company founded Sinopharm University in 2011, in order to provide large-scale standard and systematic training for employees, and cultivate pharmaceutical elites with international insight. The university cultivates internal part-time lecturers by making full use of the wisdom and strength of the team, develops a series of Sinopharm-featured courses through the study of employee competency model, and creates systematic training service products. Meanwhile, after several years of exploration and practice, the Company has cultivated a professional and powerful internal and external faculty, continuously and efficiently providing training service for employees in the companies at all levels.

In 2019, Sinopharm University closely focused on the Company's talent training strategy, relied on the two means of "online and offline" learning, applied three major methods of "action learning", "performance improvement" and "project management", and gradually promoted the integration of regional training, fulfilling the four historical missions of "cultivating talents, innovating management, promoting transformation, and inheriting culture" conferred by the Group. After one year of hard work, while significantly improving training coverage, Sinopharm University has greatly reduced the training costs of the headquarters and the subsidiaries, facilitated the Company's organizational transformation, and promoted the Company's high-quality development.

1. Cultivating talent

   With regional leadership talent echelon construction projects as the core, Sinopharm University integrated online and offline learning to comprehensively implement training projects for various management levels and in various professional fields. A total of over 200 online and offline training sessions were held throughout the year, with a satisfaction rate of over 90%. In terms of leadership, it organized the "Soaring Dragon" training session for middle-level management in Northwest and Southwest China to promote practical learning through action learning and stimulate learning enthusiasm with project competition, thereby pushing forward key tasks and accelerating organizational transformation. In terms of professional fields, it has jointly established nearly 20 training programs for professional lines with the investment department, finance department, Board office, legal department, operation department and other functional departments. At the same time, it implemented the "Spark" program, delivering more than 160 days of training for the subsidiaries, which effectively assisted the improvement of regional results, the work progress of professional lines, and the training work of subsidiaries.

2. Innovating management

   To meet the requirements of integrated development, Sinopharm University established the "Sinopharm University Online Learning Platform", formulated platform management rules, set up platform operation institutions, established an online learning system, enriched the learning materials on the platform, trained platform management personnel, and planned online learning activities. In addition to using the platform for online learning, companies at all levels made full use of the platform's live broadcast and knowledge sharing functions. This initiative not only saved a large amount of training costs and significantly improved training effectiveness, but also promoted the standardized and systematic training management of the headquarters and subsidiaries, and propelled the integration of regional learning to a higher level, receiving acclaim from all parties.

3. Promoting transformation

   To address the urgent needs of subsidiaries for "improving performance", Sinopharm University introduced and revised the "Performance Improvement" course, cultivated nearly 30 "performance improvers" internally, launched nearly 60 internal performance improvement sharing sessions at subsidiaries, and shared over 30 excellent cases of performance improvement on the learning platform, effectively promoting the performance improvement of subsidiaries. Two projects were granted practice awards for best performance improvement projects by well-known lists in the industry, and four technology control cases were shortlisted in the top 25 nationwide.

4. Inheriting culture

   In order to facilitate the implementation of various training projects, Sinopharm University has developed more than 100 online and offline courses, which effectively preserved internal experience and knowledge. The efficiency of curriculum development significantly improved than before. After the self-developed online courses with Sinopharm characteristics were broadcast on the online learning platform, they were available for subsidiaries to study at their own choice. These courses were welcomed by the subsidiaries, marking a solid step for unifying the training contents in the Company's system in the future.

   Based on the above work results, Sinopharm University was awarded 7 honors from a number of well-known domestic institutions, such as the Training Magazine, the Distance Education in China magazine, and SinoTrac Consulting, successfully moving up to 19th of the "Top 50 Chinese Enterprise Universities".

Appraisal and promotion

The Company adopts the performance appraisal for all the employees ranging from grassroots employees to superintendents of departments of the Company and its subsidiaries. It strives to establish a perfect performance appraisal mechanism with the annual operation and management objective decomposed level by level from top to bottom and realizes the full coverage of the appraisal by enhancing the strength, width and depth of the performance appraisal. It formulates and perfects performance appraisal methods and scientifically and reasonably determines relevant indexes for employees at different posts with different responsibilities according to the type of business and characteristics of different development phases, following the overall operation objective and development strategy of the Company. Employees' opinions will be solicited for the appraisal of senior managers of subsidiaries at all levels, and the appraisal method, process and result will be made public within a certain scope for the supervision by employees.

The Company has established a clear rank system to build career development path for employees and encourage employees to realize career development. With performance appraisal and in accordance with the Company's relevant rules, through cadre selection and appointment and rank promotion review, the Company conducts employee promotion each year, so as to achieve the Company's development goals and employee's personal development goals. To further optimize human resource management system and integration construction and to provide strong human resource supply for the Company's continuous and stable development, the Company strives to build professional manager team and various level talent portfolio.

7. Supply Chain Management

Adhering to the win-win cooperation concept, the Company makes concerted efforts with suppliers to build a collaborative development mechanism for mutual growth, mutual trust and mutual benefits, and create a safe and reliable green supply chain. It commits itself to establishing strategic partnership with suppliers, thereby making progress and development together to form a strong competitive advantage in the industry.

Code of conduct of suppliers

The Company not only abides by the laws and regulations, and bears relevant social responsibilities, but also plays an active role in promoting its partners to establish the social accountability management system and enhance the social accountability consciousness. It has entered into the Quality Assurance Agreement respectively with suppliers for medicines, other goods and services, stipulating that suppliers shall promise to fulfill the social responsibilities within the scope of contract, which promotes the fulfillment of social responsibilities by suppliers, and gives play to the leading role of the Company in the industry.

Supplier management

The Company implements the strict and fair supplier admission procedures and assessment mechanism, and formulates the Management Regulations of New Enterprises, in order to review the legal compliance of manufacturers or operators firstly engaged in medicine and medical instruments, as well as the intactness, authenticity and validity of relevant data. ERP system is adopted to maintain the information of suppliers, and strictly review any changes in the aforesaid information.

In order to improve the purchase business process, guarantee the purchased medicines or medical instruments are produced or operated by legitimate enterprises, provide better service for suppliers, and build a good reputation, the Company formulates the Purchase Management Regulations, explicitly stipulating on the business links such as purchase plan, purchase order, purchase contract, supplier performance monitoring, confirmation of goods arrival, import commodity inspection, import custom clearance, etc.

The Company formulates the supplier assessment standard: the Management Regulations on the Reappraisal of Qualified Suppliers, and conducts supplier assessment on a regular or irregular basis, in order to supervise suppliers to comply with quality, environmental protection and technology requirements, and continuously enhance the supply chain management level. All the subsidiaries of the Company conduct annual review of suppliers according to their actual situations on an annual basis, and list the suppliers that pass the review as qualified suppliers upon completion of review.

8. Perfect anti-corruption mechanism

To build an incorrupt, efficient and harmonious corporate environment and prevent the possible bad practice and corruption issues in various operation and management activities, the Company constantly establishes and improves various management and control mechanisms to combat corruption and advocate integrity. In accordance with the requirements of China National Pharmaceutical Group, the Company's disciplinary inspection organization reformed the work system to further improve the organizational structure and supplement staffing, so as to ensure the Company's healthy development.

Raising integrity consciousness

Sinopharm Holdings raised the integrity consciousness of leaders of companies at all levels to prevent corruption and protect the interests of investors. Each year, the Company signs the "Responsibility Letter for Construction of the Party Conduct and an Honest and Clean Governance" with the persons in charge of its subsidiaries. Each year, the Company carries out various forms of publicity and education on integrity culture and warning education, educating employees with the events around them to keep them vigilant.

Transparent reporting platform

The Company establishes and improves the supervision and restriction mechanism in accordance with the requirements of SASAC of the State Council and CNPGC. The Discipline Inspection Organization, Audit Department, Legal Compliance Department, Risk and Operations Management Department and other departments fully implement integrity and compliance requirements through the acceptance of complaint letters, visits and reports, internal audit, supervision and inspection. The Company and its subsidiaries also actively deal with the feedback from its employees, social citizens, legal person and other organizations received via the reporting hotline, email, and reporting mailbox.

Launch of internal inspection

Pursuant to the general requirement of CNPGC Party Committee, a new round of internal inspection was fully launched in 2018. The Party Committees at Company headquarters and second-tier subsidiaries have formulated a five-year work plan to carry out regular inspections, special inspections and "look-back" inspections as planned every year, in order to extend the tentacle of finding problem to prefecture-level companies and extend supervision to "nerve end".

Implement "Eight Regulations"

The Company further implemented the requirements by the Political Bureau of the Central Committee's "Eight Regulations", improved the working style, kept close ties with the masses, served the employees, established a good cadre team image, promoted the healthy and sustained development of the Company, complied with specific requirements of CNPGC Party Committee, and advanced Sinopharm Group's work on party conduct construction and anti-corruption and advocate integrity in the process of fully advancing reform of mixed-ownership.

Improvement in research work	Simplify the meeting	Simplify the document and bulletin
• Understand actual situations among the grassroots • Sufficient preparations and full implementation • Simplify the reception • Reduce the accompanying persons	• Control the number of meetings • Establish the meeting approval system • Control the meeting scale and duration • Control the meeting expenditure	• Reduce various documents and bulletins • Improve the quality of documents and bulletins • Enhance the timeliness of documents

Improvement in news propaganda	Be diligent and thrifty	Supervise and urge the implementation
• Standardize and improve the news propaganda • Strengthen the communication with the public • Make public the information	• Strictly implement benefit standards • Strengthen the management of business trips abroad • Strictly control entertainment expenses	• Take the lead in the implementation • Make rigid restraints with regulations • Strengthen the inspection

The Group maintains a high standard of integrity in its operations and strictly complies with the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery, and other related laws and regulations against corruption, bribery, extortion, fraud and money laundering to effectively prevent various malpractice risks.

9. Returning the Society

The Company not only grasps the production, operation and economic benefits, but also focuses on public welfare activities to return the society for years. It has released and continuously improved relevant policies in support for the public welfare activities conducted by all the subsidiaries such as the donation to the disaster area, voluntary diagnosis and treatment, education support, and poverty relief, and actively supervised and urged internal departments and branches and subsidiaries of the Company to fulfill the due social responsibilities.

Voluntary medical treatment

The Company not only engages in the donation to public welfare career, but also carries out "voluntary diagnosis", "donation of medical supplies" and "blood donation" without payment by making use of its own advantages, in order to make contributions to the improvement of medical treatment and health conditions of the masses.

Targeted poverty relief

Following the cultural tenet of "All for Health, Health for All", the Company actively fulfills the social responsibilities as a central enterprise. Over years through measures such as targeted poverty relief, foundation, Charity Federation, Red Cross and disaster relief, relevant subsidiaries made donation to society's relevant organizations and targeted help locations, resulting in returning to the society and bringing benefits to the people. In 2019, Sinopharm's various subsidiaries launched poverty relief to 6 targeted counties (towns, villages).

Poverty relief

The Company not only strives to realize further development, but also actively returns the society. It actively participates in the construction of local residential areas by making use of its own fund, manpower and technology, fulfills its social responsibilities, cares about the hardship of employees in difficulty, and eliminates the difficulty and trouble for them by making use of its own fund, manpower and technology. The Company also encourages its subsidiaries to actively fulfill social responsibilities. In 2019, Sinopharm's various subsidiaries spent RMB4.65 million on poverty relief.

Independent Auditor's Report

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To the shareholders of Sinopharm Group Co. Ltd.
(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on page 98 to 252, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
The carrying value of goodwill amounting to RMB5,664 million as at 31 December 2019 was allocated to the Group's cash-generating units ("CGUs") of pharmaceutical distribution, retail pharmacy, medical devices and other business segments. Under HKFRSs, the Group is required to perform the impairment test for goodwill annually. The impairment test is based on the recoverable amounts of the respective CGUs to which the goodwill is allocated. Management performed the impairment test using the value-in-use calculation based on the discounted cash flow method and also involved external experts to perform an impairment assessment on part of CGUs. Assumptions such as the discount rate and the long-term growth rate were made applying estimates and significant judgements. The Group's disclosures about impairment of goodwill are included in Note 4(8) and Note 19 to the financial statements, which specifically explain the key assumptions that management used in the valuation.	Our audit procedures included, among others, assessing the competence, capabilities and objectivity of its external experts and involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group and external experts, in particular, the discount rate and the long-term growth rate. We assessed reasonableness of the forecasts used in the impairment test by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We also read and assessed the Group's disclosures of goodwill.

Key audit matters (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)

Impairment of trade receivables

At as 31 December 2019, the gross carrying value of trade receivable amounting to RMB111,058 million, for which loss allowance of RMB1,547 million was recorded.

Management applied judgement in assessing the expected credit losses ("ECLs"). Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for loss allowance. ECLs are also estimated by grouping the remaining receivables based on shared credit risk characteristics, ageing of billing and collectively assessed for likelihood of recovery, taking into account the nature of the customers, product types, and ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

The ECLs rates are determined based on historical credit loss experience and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit loss allowance of the trade receivables.

The Group's disclosures about loss allowance for trade receivables are included in Note 3(1)(iii), Note 4(4), and Note 29 to the financial statements.

Our procedures in relation to management's ECL assessment on trade receivables included:

– Reviewing and assessing the application of the Group's policy for calculating the ECL;

– Evaluating techniques and methodology in the ECL model against the requirements of HKFRS 9; and

– Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are adjusted based on current economic conditions and forward-looking information and assessing whether there was an indication of management bias when recognising loss allowances.

We also read and assessed the relevant disclosures made in the financial statements, including disclosures of the basis for this estimation.

Other information included in the Annual Report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	6	**425,272,726**	344,525,821
Cost of sales	10	**(387,741,423)**	(313,297,729)
Gross profit		**37,531,303**	31,228,092
Other income	7	**441,164**	413,764
Selling and distribution expenses	10	**(12,556,928)**	(10,369,831)
Administrative expenses	10	**(6,912,227)**	(5,517,883)
Impairment losses on financial and contract assets	8	**(416,391)**	(357,336)
Losses on disposal of financial assets measured at amortised cost		**(1,950,177)**	(1,328,832)
Operating profit		**16,136,744**	14,067,974
Other gains, net	9	**53,179**	81,828
Other expenses	9	**(173,723)**	–
Finance income		**513,397**	494,781
Finance costs		**(3,656,861)**	(3,279,812)
Finance costs, net	12	**(3,143,464)**	(2,785,031)
Share of profits and losses of:			
Associates	21	**876,381**	833,203
Joint ventures		**10,693**	9,966
		887,074	843,169
Profit before tax		**13,759,810**	12,207,940
Income tax expense	13	**(3,139,738)**	(2,803,456)
PROFIT FOR THE YEAR		**10,620,072**	9,404,484
Attributable to:			
Owners of the parent		**6,252,537**	5,835,842
Non-controlling interests		**4,367,535**	3,568,642
		10,620,072	9,404,484
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (expressed in RMB per share)			
– Basic	14	**2.11**	1.97
– Diluted	14	**2.10**	1.96

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR		**10,620,072**	9,404,484
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of post-employment benefit obligations	13	**(17,333)**	(14,650)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**8,716**	(10,833)
Income tax effect		**(2,179)**	2,815
Fair value losses on financial asset, net of tax	13	**6,537**	(8,018)
Net other comprehensive loss that will not to be reclassified to profit or loss in subsequent periods		**(10,796)**	(22,668)
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(3,582)**	(6,445)
Share of other comprehensive loss of associates		**(703)**	(600)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(4,285)**	(7,045)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(15,081)**	(29,713)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,604,991**	9,374,771
Attributable to:			
Owners of the parent		**6,239,015**	5,809,984
Non-controlling interests		**4,365,976**	3,564,787
		10,604,991	9,374,771

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Assets			
NON-CURRENT ASSETS			
Prepaid land lease payments	16	–	1,667,325
Right-of-use assets	16	6,350,157	–
Investment properties	17	699,431	583,557
Property, plant and equipment	18	11,712,879	11,025,136
Intangible assets	19	8,988,850	7,476,734
Investments in joint ventures		34,274	23,571
Investments in associates	21	7,018,107	6,358,496
Equity investments designated at fair value through other comprehensive income	22	38,284	28,375
Financial assets at fair value through profit or loss	23	729,892	654,672
Finance lease receivables	24	18,288	9,665
Deferred tax assets	26	1,448,853	1,072,142
Other non-current assets	27	2,849,668	2,216,831
Total non-current assets		39,888,683	31,116,504
CURRENT ASSETS			
Inventories	28	42,594,396	35,388,863
Trade and bills receivables	29	122,266,917	106,423,594
Contract assets	30	353,688	250,294
Prepayments, other receivables and other assets	31	14,930,966	15,058,178
Financial assets at fair value through profit or loss	23	156	41,199
Finance lease receivables	24	7,965	4,917
Pledged deposits and restricted cash	32	10,653,633	7,188,543
Cash and cash equivalents	32	39,191,967	40,298,985
Total current assets		229,999,688	204,654,573
Total assets		269,888,371	235,771,077
EQUITY			
Equity attributable to owners of the parent			
Share capital	39	2,971,656	2,971,656
Treasury shares held for share incentive scheme	47	(60,212)	(135,318)
Reserves	40	44,510,702	39,985,488
		47,422,146	42,821,826
Non-controlling interests		29,517,221	25,453,941
Total equity		76,939,367	68,275,767

	Notes	2019 RMB'000	2018 RMB'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**8,372,850**	4,951,167
Lease liabilities	16	**3,097,485**	–
Deferred tax liabilities	26	**1,099,108**	864,906
Post-employment benefit obligations	37	**399,003**	415,461
Contract liabilities	35	**59,671**	39,427
Other non-current liabilities	38	**1,496,253**	1,149,968
Total non-current liabilities		**14,524,370**	7,420,929
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**42,476,715**	50,085,218
Lease liabilities	16	**1,192,204**	–
Trade and bills payables	34	**100,333,768**	83,682,927
Contract liabilities	35	**5,127,061**	6,101,607
Accruals and other payables	36	**27,601,152**	18,790,632
Dividends payable		**368,295**	185,662
Tax payable		**1,325,439**	1,228,335
Total current liabilities		**178,424,634**	160,074,381
TOTAL LIABILITIES		**192,949,004**	167,495,310
TOTAL EQUITY AND LIABILITIES		**269,888,371**	235,771,077

The financial statements were approved by the Board of Directors on 29 March 2020 and were signed on its behalf by

Li Zhiming	**Tan Wee Seng**
Director	*Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

		Attributable to owners of the parent					
	Notes	Share capital RMB'000 (Note 39)	Treasury shares held for share incentive scheme RMB'000	Reserves RMB'000 (Note 40)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019		2,971,656	(135,318)	39,985,488	42,821,826	25,453,941	68,275,767
Total comprehensive income for the period		-	-	6,239,015	6,239,015	4,365,976	10,604,991
Effect of transactions with non-controlling interests	44(c)	-	-	(113,349)	(113,349)	(46,479)	(159,828)
Capital injection from non-controlling shareholders of subsidiaries		-	-	-	-	1,089,729	1,089,729
Acquisition of subsidiaries	45	-	-	-	-	731,514	731,514
Disposal of subsidiaries	43	-	-	-	-	(20,169)	(20,169)
Dividends on shares held by the share incentive scheme		-	2,376	-	2,376	-	2,376
Release of shares from the share incentive scheme		-	73,924	-	73,924	-	73,924
Dividend on shares released from the share incentive scheme		-	(1,194)	1,194	-	-	-
Equity-settled share incentive scheme		-	-	(10,396)	(10,396)	(1,443)	(11,839)
Dividends paid to non-controlling interests		-	-	-	-	(1,978,278)	(1,978,278)
Dividend declared		-	-	(1,753,277)	(1,753,277)	-	(1,753,277)
Share of changes in equity other than comprehensive income and distributions received from associates		-	-	68,350	68,350	18,465	86,815
Others		-	-	93,677	93,677	(96,035)	(2,358)
At 31 December 2019		2,971,656	(60,212)	44,510,702	47,422,146	29,517,221	76,939,367

	Attributable to owners of the parent					
	Share capital RMB'000 (Note 39)	**Treasury shares held for share incentive scheme** RMB'000	**Reserves** RMB'000 (Note 40)	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
As at 1 January 2018	2,767,095	(193,003)	35,727,389	38,301,481	19,645,709	57,947,190
Total comprehensive income	–	–	5,809,984	5,809,984	3,564,787	9,374,771
Issue of ordinary shares	204,561	–	(204,561)	–	–	–
Effects of transactions with non-controlling interests	–	–	307,797	307,797	1,995,908	2,303,705
Capital injection from non-controlling shareholders of subsidiaries	–	–	–	–	1,036,707	1,036,707
Acquisition of subsidiaries	–	–	–	–	229,447	229,447
Disposal of subsidiaries	–	–	–	–	(1,157)	(1,157)
Transfer of treasury shares upon vesting of share incentive scheme	–	48,097	–	48,097	–	48,097
Dividends on shares held by the share incentive scheme	–	2,509	–	2,509	–	2,509
Release of shares from the share incentive scheme	–	7,293	–	7,293	–	7,293
Dividend on shares released from the share incentive scheme	–	(214)	214	–	–	–
Equity-settled share incentive scheme	–	–	(4,695)	(4,695)	(794)	(5,489)
Dividend declared	–	–	(1,577,244)	(1,577,244)	–	(1,577,244)
Dividends paid to non-controlling shareholders	–	–	–	–	(1,039,216)	(1,039,216)
Share of changes in equity other than comprehensive income and distributions received from associates	–	–	46,409	46,409	34,660	81,069
Other changes of an investment in an associate	–	–	(103,356)	(103,356)	(12,329)	(115,685)
Others	–	–	(16,449)	(16,449)	219	(16,230)
At 31 December 2018	2,971,656	(135,318)	39,985,488	42,821,826	25,453,941	68,275,767

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities:			
Cash generated from operations	41(a)	**22,218,369**	6,421,228
Income tax paid		**(3,441,273)**	(2,767,489)
Net cash generated from operating activities		**18,777,096**	3,653,739
Cash flows from investing activities:			
Proceeds from disposal of intangible assets		**6,524**	4,518
Proceeds from disposal of prepaid land lease payments		**–**	30,252
Proceeds from disposal of property, plant and equipment		**173,101**	169,775
Proceeds from disposal of investment properties		**–**	1,797
Proceeds from disposal of financial assets at fair value through profit or loss		**55,246**	60,113
Proceeds from disposal of an associate		**40,384**	–
Proceeds from disposal of other non-current assets		**–**	3,059
Interest received from long-term deposits		**83,189**	76,049
Disposal of subsidiaries, net of cash disposed of	43	**12,228**	341
Dividends received from associates		**357,676**	383,378
Dividends received from a joint venture		**6**	–
Dividends received from financial assets at fair value through profit or loss		**1,511**	12,464
Interest income from asset-backed securities		**6,040**	18,635
Dividends received from financial assets at fair value through other comprehensive income		**814**	850
Prepayments of land lease		**(181,951)**	(138,090)
Purchase of property, plant and equipment		**(2,205,661)**	(3,239,849)
Purchase of intangible assets		**(161,222)**	(26,181)
Purchase of investment properties		**(18,318)**	(45)
Payments of long-term deposits		**(98,277)**	(307,000)
Payments for acquisition of industry investment funds		**–**	(260,000)
Acquisition of financial assets at fair value through profit or loss		**(114,250)**	(277,040)
Acquisition of financial assets at fair value through other comprehensive income		**(900)**	–
Acquisition of subsidiaries, net of cash acquired	45	**(939,925)**	(51,381)
Consideration paid for prior year acquisition of subsidiaries		**(252,631)**	(222,706)
Acquisition of associates and joint ventures		**(94,461)**	(21,374)
Increase in restricted cash	32	**(3,465,090)**	(2,125,189)
Net cash flows used in investing activities		**(6,795,967)**	(5,907,624)

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from financing activities:			
Proceeds from borrowings from banks		46,412,686	49,774,665
Proceeds from borrowings from related parties		–	23,479
Proceeds from borrowings from other financial institutions		5,124,569	1,950,832
Repayments of borrowings from banks		(49,265,833)	(46,946,008)
Repayments of borrowings from related parties		(15,264)	(18,867)
Repayments of borrowings from other financial institutions		(5,057,651)	(797,716)
Repayments of bonds		(36,959,990)	(19,000,000)
Proceeds from issuance of bonds		35,462,623	29,296,528
Capital injections from non-controlling shareholders of subsidiaries		1,033,333	1,036,707
Dividends paid to owners of the parent of the Company		(1,753,277)	(1,577,030)
Dividends paid to non-controlling shareholders of subsidiaries		(1,795,644)	(1,042,619)
Transactions with non-controlling interests of subsidiaries		29,487	1,668,093
Release of shares under the share incentive scheme		50,152	2,833
Interest paid		(5,180,182)	(4,052,378)
Principal portion of lease payments		(1,169,574)	–
Net cash (used in)/from financing activities		(13,084,565)	10,318,519
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,103,436)	8,064,634
Cash and cash equivalents at beginning of year	32	40,298,985	32,240,796
Effect of foreign exchange rate changes, net		(3,582)	(6,445)
Cash and cash equivalents at end of year	32	39,191,967	40,298,985

1. General information

Sinopharm Group Co. Ltd. (the "Company") was established in the People's Republic of China (the "PRC") on 8 January 2003 as a company with limited liability under the PRC Company Law.

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1:0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign-invested shares ("H Shares"), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 23 September 2009. The Company issued 204,561,102 domestic shares to China National Pharmaceutical Group Co., Ltd. ("CNPGC") under general mandate at the issue price of RMB24.97 per consideration share on 13 December 2018.

The address of the Company's registered office is 221 Fuzhou Road, Huangpu District, Shanghai, the PRC.

The Company and its subsidiaries (together, the "Group") are mainly engaged in: (1) the distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics, (2) the operation of chain pharmacy stores, (3) the distribution of medical devices, and (4) the distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

The ultimate holding company of the Company is CNPGC, which was established in the PRC.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, unless otherwise stated. These financial statements were approved for issue by the Board of Directors on 29 March 2020.

2. Summary of significant accounting policies

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

(1) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group

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

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

Except for the amendments to HKFRS 9, amendments to HKAS 19, amendments to HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 *Leases*

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

For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

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

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

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

(a) HKFRS 16 *Leases* (continued)

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, buildings, plant and machinery 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 HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (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.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB137,324,000 that were reclassified from property, plant and equipment.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

(a) HKFRS 16 *Leases* (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impact on transition (continued)

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease;
- 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 HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review.

As a lessee – Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

(a) HKFRS 16 *Leases* (continued)

Financial impact at 1 January 2019

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

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	5,683,407
Decrease in property, plant and equipment	(137,324)
Decrease in prepaid land lease payments	(1,667,325)
Decrease in prepayments, other receivables and other assets	(294,550)
Increase in total assets	3,584,208
Liabilities	
Increase in lease liabilities	3,677,338
Decrease in other payables and accruals	(11,960)
Decrease in other non-current liabilities	(81,170)
Increase in total liabilities	3,584,208

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	4,326,540
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(438,767)
Commitments relating to leases of low-value assets	(6,130)
Variable lease payments not included in the measurement of lease liabilities	(992)
	3,880,651
Weighted average incremental borrowing rate as at 1 January 2019	4.39%
Discounted operating lease commitments as at 1 January 2019	3,609,404
Add: Finance lease liabilities recognised as at 31 December 2018	67,934
Lease liabilities as at 1 January 2019	3,677,338

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

(b) HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group was of the opinion that the interpretation did not have any material impact on the financial position or performance of the Group.

(ii) Issued but not yet effective HKFRSs

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

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

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

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

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

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

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

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

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

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

(2) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

Basis of consolidation

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.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

Basis of consolidation (continued)

(i) Business combinations not under common control

The Group applies the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of the consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

Basis of consolidation (continued)

(ii) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter year, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous financial year end or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using the merger accounting is recognised as an expense in the year in which it is incurred.

(iii) Changes in ownership interests in subsidiaries without loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

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 earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

Basis of consolidation (continued)

(v) Goodwill

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.

(vi) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. Summary of significant accounting policies (continued)

(3) Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

(4) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the operating committee (comprising the CEO and the CEO office) that makes strategic decisions.

2. Summary of significant accounting policies (continued)

(5) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

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

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.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of financial year end;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

2. Summary of significant accounting policies (continued)

(5) Foreign currency translation (continued)

(iii) Group companies (continued)

On consolidation, exchange differences arising from translation of net investments in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

(6) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the statement of profit or loss during the year in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Buildings	8-45 years
Plant and machinery	5-15 years
Furniture, fittings and equipment	3-15 years
Motor vehicles	3-10 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains – net, in the consolidated statement of profit or loss.

2. Summary of significant accounting policies (continued)

(7) Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

The land component of leasehold investment property is accounted for as a right-of-use asset (2018: prepaid land lease payment).

The building component of investment properties is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 25 to 50 years.

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each financial year end. The effects of any revision are included in the statement of profit or loss when the changes arise.

(8) Intangible assets other than goodwill

(i) Sales network

Sales network represents customer relationship and distribution channels acquired in business combinations, which are recognised at fair value at the acquisition date and are amortised using the straight-line method over their estimated useful lives of 3 to 20 years.

(ii) Trademarks and patent rights

Separately acquired trademarks are shown at historical cost. Trademarks acquired in business combinations are recognised at fair value at the acquisition date. Trademarks with a finite useful life are amortised using the straight-line method over their estimated useful lives of 5 to 20 years. Trademarks with an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Patent rights are initially recorded at cost and are amortised using the straight-line method over the estimated useful lives of 5 to 15 years.

(iii) Exclusive distribution rights

Exclusive distribution rights are measured initially at cost and amortised using the straight-line method over their useful life of 10 years according to the contracts.

(iv) Favourable leasing rights

Favourable leasing rights acquired in business combinations are recognised at fair value at the acquisition date and are amortised using the straight-line method over 17 to 20 years.

2. Summary of significant accounting policies (continued)

(8) Intangible assets other than goodwill (continued)

(v) Software

Acquired software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 10 years.

(vi) Internally generated product development cost

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset upon the completion of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the product development phase is recognised as intangible asset only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- there is an ability to use or sell the product development result;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as intangible asset in the statement of financial position.

Internally generated product development costs recognised as assets are amortised over their estimated useful lives of 3 to 5 years.

The assets' useful lives are reviewed, and adjusted if appropriate, at each financial year end.

2. Summary of significant accounting policies (continued)

(9) Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. 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:

Land	20-50 years
Buildings	8-45 years
Plant and machinery	5-15 years
Furniture, fittings and equipment	3-15 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.

2. Summary of significant accounting policies (continued)

(9) 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.

(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 that are considered to be of low value.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

2. Summary of significant accounting policies (continued)

(10) Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 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 50 years. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the year of the rights.

(11) Fair value measurement

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

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

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

2. Summary of significant accounting policies (continued)

(11) Fair value measurement (continued)

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.

(12) Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(13) 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 are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

2. Summary of significant accounting policies (continued)

(13) Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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.

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.

2. Summary of significant accounting policies (continued)

(13) Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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

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

Financial assets at fair value through profit or loss

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

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

(14) Derecognition of financial assets

A financial asset 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.

2. Summary of significant accounting policies (continued)

(14) 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.

(15) Impairment of financial assets

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

General approach

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

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

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

The Group considers a financial asset 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.

2. Summary of significant accounting policies (continued)

(15) 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 receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

For trade receivables and contract assets 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.

(16) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

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

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

Subsequent measurement

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

2. Summary of significant accounting policies (continued)

(16) Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, bank loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortization 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 amortization is included in finance costs in profit or loss.

(17) 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.

(18) 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.

(19) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(20) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and separate statement of financial positions, bank overdrafts are shown within borrowings in current liabilities.

2. Summary of significant accounting policies (continued)

(21) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(22) Treasury shares

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

(23) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the financial year end.

(24) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2. Summary of significant accounting policies (continued)

(25) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates and joint ventures, only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2. Summary of significant accounting policies (continued)

(25) Current and deferred income tax (continued)

(iii) Offsetting

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.

(26) Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Asian Options model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and 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 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 service conditions are satisfied.

2. Summary of significant accounting policies (continued)

(26) Share-based payments (continued)

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.

(27) Other employee benefits

Pension scheme

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to make contributions of 12% to 20% (2018: 14% to 28%) of its 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.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

2. Summary of significant accounting policies (continued)

(28) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(29) Revenue recognition

Revenue from contracts with customers

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

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

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

Sale of goods

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

Some contracts for the sale of goods provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

2. Summary of significant accounting policies (continued)

(29) Revenue recognition (continued)

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

(30) Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

(31) 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).

(32) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the year necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

(33) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Summary of significant accounting policies (continued)

(34) 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; 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.

3. Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and fair value and cash flow interest rate risk), credit risk and liquidity risk.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

(i) Foreign currency risk

The Group mainly operates in the PRC with most of the Group's transactions denominated and settled in RMB. However, the Group has certain cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, mainly United States Dollars ("USD"), Hong Kong Dollars ("HKD") and Euro ("EUR"), which are exposed to foreign currency translation risk. The Group has not hedged its foreign currency risk.

As at 31 December 2019, if RMB had strengthened/weakened by 10% against USD, HKD and EUR with all other variables held constant, the impact on post-tax profit for the year ended 31 December 2019 would be immaterial.

(ii) Fair value and cash flow interest rate risk

Except for deposits in banks or other financial institutions which earn interest at floating rates, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2019, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2019 would have been RMB91,839,000 (2018: RMB121,835,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

(iii) Credit risk

The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

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.

For the financial assets measured at amortised cost included in trade and commercial acceptance to which the Group applies the simplified approach for impairment, information based on the provision matrix is set as below.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk (continued)

As at 31 December 2019

	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Provision on individual basis		**5,649,411**	**153,563**
Provision on collective basis – Ageing			
Within 1 year	**1%**	**107,631,167**	**1,114,193**
1 to 2 years	**10%**	**1,589,644**	**158,964**
2 to 3 years	**30%**	**242,952**	**72,886**
3 to 4 years	**50%**	**71,579**	**35,789**
4 to 5 years	**80%**	**17,725**	**14,180**
Over 5 years	**100%**	**32,937**	**32,937**
		115,235,415	**1,582,512**

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Provision on individual basis		5,449,273	79,852
Provision on collective basis – Ageing			
Within 1 year	1%	95,488,848	989,224
1 to 2 years	10%	972,372	97,237
2 to 3 years	30%	133,347	40,004
3 to 4 years	50%	34,897	17,448
4 to 5 years	80%	17,202	13,761
Over 5 years	100%	12,928	12,928
		102,108,867	1,250,454

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk (continued)

For contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix were set as below.

As at 31 December 2019

Expected credit loss rate	6%

	RMB'000
Gross carrying amount	**377,739**
Expected credit losses	**24,051**

As at 31 December 2018

Expected credit loss rate	3%

	RMB'000
Gross carrying amount	259,225
Expected credit losses	8,930

For the financial assets included in other receivables to which the Group applies the general approach for impairment, information based on the provision matrix is set as below.

As at 31 December 2019

	12-month ECLs	**Lifetime ECLs**	
	Stage 1	**Stage 2**	**Stage 3**
Financial assets included in other receivables	**2,970,207**	**2,221,049**	**–**

As at 31 December 2018

	12-month ECLs	Lifetime ECLs	
	Stage 1	Stage 2	Stage 3
Financial assets included in other receivables	2,815,851	1,932,737	–

The Group has policy in place to ensure credit sales are made to customers with an appropriate credit history. Credit terms are approved after credit evaluations/reviews. The majority of trade receivables are with customers having an appropriate credit history.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk (continued)

The Group has policies to place its cash and cash equivalents only with major financial institutions and other financial institutions controlled by CNPGC. As at 31 December 2019, most of the restricted bank deposits and cash and cash equivalents were deposited with major financial institutions in Mainland China and Hong Kong except the deposit placed in a related party as disclosed in Note 46.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, and discounting of bank acceptance notes to banks or other financial institutions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

At the reporting date, the Group held cash and cash equivalents of RMB39,191,967,000 (2018: RMB40,298,985,000) and trade and bills receivables of RMB122,266,917,000 (2018: RMB106,423,594,000) that are expected to readily generate cash inflows for managing liquidity risk. The Group also has agreed to receive bank acceptance notes from certain customers with long-term business trading history and most of these notes are guaranteed by major banks in Mainland China. The maturity of these bank acceptance notes ranges from 3 to 6 months. To maintain flexibility in the Group's funding requirements, a major portion of these bank acceptance notes are discounted to banks or other financial institutions with effective interest rates ranging from 1.18% to 7.50% per annum.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iv) Liquidity risk (continued)

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

	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2019					
Interest-bearing bank and other borrowings	**43,287,232**	**4,204,886**	**4,548,002**	**–**	**52,040,120**
Trade and other payables	**124,529,687**	**–**	**–**	**–**	**124,529,687**
Dividends payable	**368,295**	**–**	**–**	**–**	**368,295**
Lease liabilities	**1,192,204**	**1,050,898**	**1,608,319**	**916,945**	**4,768,366**
Other non-current liabilities	**–**	**39,000**	**–**	**–**	**39,000**
	169,377,418	**5,294,784**	**6,156,321**	**916,945**	**181,745,468**
As at 31 December 2018					
Interest-bearing bank and other borrowings	51,010,291	1,353,980	3,922,477	–	56,286,748
Trade and other payables	99,901,576	–	–	–	99,901,576
Dividends payable	185,662	–	–	–	185,662
Other non-current liabilities	–	40,667	27,267	–	67,934
	151,097,529	1,394,647	3,949,744	–	156,441,920

Note: The calculation of expected interest to be paid is based on borrowings as at 31 December 2019 and 2018 and the interest rates as at 31 December 2019 and 2018.

3. Financial risk management (continued)

(2) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the total liabilities divided by the total assets.

The gearing ratios are as follows:

	2019 RMB'000	2018 RMB'000
Total liabilities	**192,949,004**	167,495,310
Total assets	**269,888,371**	235,771,077
Gearing ratio	**71.49%**	71.04%

3. Financial risk management (continued)

(3) Fair value estimation

The table below shows the analysis of financial instruments carried at fair value by the valuation method. The different levels have been defined as follows:

- Quoted prices unadjusted in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The table below presents the Group's financial instruments that are measured at fair value at 31 December 2019 and 2018.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
As at 31 December 2019				
Equity investments designated at fair value through other comprehensive income	**29,229**	**871**	**8,184**	**38,284**
Financial assets at fair value through profit or loss	**156**	**3,700**	**726,192**	**730,048**
Bills receivable held both to collect cash flows and to sell	**–**	**8,614,014**	**–**	**8,614,014**
	29,385	**8,618,585**	**734,376**	**9,382,346**
As at 31 December 2018				
Equity investments designated at fair value through other comprehensive income	22,325	870	5,180	28,375
Financial assets at fair value through profit or loss	399	3,700	691,772	695,871
Bills receivable held both to collect cash flows and to sell	–	5,571,562	–	5,571,562
	22,724	5,576,132	696,952	6,295,808

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3. Financial risk management (continued)

(3) Fair value estimation (continued)

(ii) Financial instruments in level 2

The fair value of financial instrument that is not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all inputs that are significant to fair value measurement are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swap that is calculated as the present value of the estimated future cash flows based on observable yield curves.

- The fair value of forward foreign exchange contract that is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to the present value.

- Other techniques, such as a discounted cash flow analysis, used to determine fair value for the remaining financial instruments.

During the year, there were no transfers of financial assets between level 1 and level 2.

(iii) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The investments in level 3 included unlisted equity investments and asset-backed securities.

As at 31 December 2019, the Group recognised unlisted equity investments of RMB695,736,000 in level 3 as these investments and instruments are not traded in an active market, and majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund-raising transactions undertaken by the investees) and other exposure.

As at 31 December 2019, the Group invested in asset-backed securities which were issued by special purpose trusts. The Group entered into securitisation transactions in the normal course of business by transferring trade receivables to special purpose trusts which in turn issued asset-backed securities to investors. The Group acquired some subordinated tranches of securities and accordingly parts of the risks and rewards of the transferred credit assets.

3. Financial risk management (continued)

(3) Fair value estimation (continued)

(iii) Financial instruments in level 3 (continued)

As at 31 December 2019, the Group continued to involve in the asset-back securities transactions to some extent. The Group continued to recognise the relevant assets amounting to RMB39,000,000. The associated liabilities amounted to RMB39,000,000 which represented the maximum cash flows exposure due to the subordinated tranches of securities held by the Group, and its secondary earnings appropriation.

The recurring fair value measurement for the Group's financial assets at fair value through profit or loss was performed using significant unobservable inputs (Level 3) as at 31 December 2019. Below is a summary of the valuation techniques used and the key input to the valuation:

	Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
Unlisted equity investments, at fair value	Valuation multiples	Average P/B multiple of peers	5% increase/decrease would result in increase/decrease in fair value by 5%
Asset-backed securities, at fair value	Discounted cash flow method	Discount rate per annum	5% increase/decrease would result in increase/decrease in fair value by 0.6%
Investments in funds, at fair value	Valuation multiples	Average P/B multiple of peers	5% increase/decrease would result in increase/decrease in fair value by 5%
Bills receivable held both to collect cash flows and to sell	Discounted cash flow method	Discount rate per annum	5% increase/decrease would result in decrease/increase in fair value by 0.9%

3. Financial risk management (continued)

(4) Fair value of financial assets and liabilities measured at amortised cost

The carrying amounts and fair values of the Group's financial instruments measured at amortised cost, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair value	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Borrowings from banks and other financial institutions	**460,706**	657,310	**514,204**	761,440
Bonds	**7,912,144**	4,293,857	**7,912,144**	4,293,857

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(1) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future years.

4. Critical accounting estimates and judgements (continued)

(2) Useful lives of sales network, trademarks and patent rights

The Group determines the estimated useful lives and consequently the related amortisation charges for its sales network, trademarks and patent rights. These estimates are based on the historical experience of the actual useful lives of sales network, trademarks and patent rights of similar nature and functions and considering the current market environment in the PRC and estimations of future changes. Management will increase the amortisation charges where useful lives are less than previously estimated lives, it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortisation expenses in future years.

(3) Impairment of property, plant and equipment and prepaid land lease payments

Property, plant and equipment and prepaid land lease payments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rates assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

(4) Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based ageing for groupings of various customer segments that have similar loss patterns.

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. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. 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 customer's actual default in the future.

4. Critical accounting estimates and judgements (continued)

(5) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each financial year end.

(6) Income taxes and deferred income tax

The Group is subject to income taxes in Mainland China and Hong Kong. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the year in which such estimates are changed.

(7) Post-employment benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Discount rate is one of the assumptions used in determining the net cost (income) for pensions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of PRC government bonds that are denominated in RMB (the currency in which the benefits will be paid), and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are partially based on current market conditions.

4. Critical accounting estimates and judgements (continued)

(8) Impairment of goodwill and trademarks with an indefinite useful life

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the assets' recoverable amount, which is the higher of its value in use and fair value less costs of disposal. Estimating the value in use or fair value less cost of disposal 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. These calculations require the use of estimates (Note 19).

(9) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in Note 3(3) to the financial statements. 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 2 and Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB699,948,000 (2018: RMB660,722,000). Further details are included in Note 22 and Note 23 to the financial statements.

(10) 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).

5. Segment information

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the CEO and the executives at the CEO office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following four business types in the PRC:

(i) Pharmaceutical distribution – distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics;

(ii) Retail pharmacy – operation of chain pharmacy stores;

(iii) Medical devices – distribution of medical devices;

(iv) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

5. Segment information (continued)

Although the retail pharmacy segment does not meet the quantitative thresholds required by HKFRS 8 *Operating Segments*, management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of prepaid land lease payments, investment properties, property, plant and equipment, intangible assets, investments in associates and joint ventures, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings, deferred tax liabilities and other liabilities that are incurred for financing rather than operating purposes.

Unallocated assets mainly represent deferred tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred tax liabilities.

Capital expenditure comprises mainly additions to prepaid land lease payments, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

Inter-segment revenues are conducted at prices and on terms mutually agreed upon amongst those business segments. The revenue from external parties reported to the operating committee is measured in a manner consistent with that in the consolidated statement of profit or loss.

5. Segment information (continued)

Segment revenue and results

(i) For the year ended 31 December 2019 and 2018

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
Year ended 31 December 2019						
Segment results						
External segment revenue	332,091,107	19,519,671	69,013,006	4,648,942	–	425,272,726
Intersegment revenue	5,225,524	283,619	280,533	388,188	(6,177,864)	–
Revenue	337,316,631	19,803,290	69,293,539	5,037,130	(6,177,864)	425,272,726
Operating profit	12,585,599	497,658	2,772,873	426,096	(145,482)	16,136,744
Other gains, net	48,248	1,245	(26,919)	30,605	–	53,179
Other expenses	(154,760)	–	(18,963)	–		(173,723)
Share of profits and losses of associates and joint ventures	20,520	2,399	(29)	864,184	–	887,074
	12,499,607	501,302	2,726,962	1,320,885	(145,482)	16,903,274
Finance costs, net						(3,143,464)
Profit before tax						13,759,810
Income tax expense						(3,139,738)
Profit for the year						10,620,072
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	275,530	2,862	137,252	747		416,391
(Reversal of provision)/provision for impairment of inventories	(67,153)	1,968	71,431	(857)		5,389
Provision for impairment of property, plant and equipment	1,831	–	6,461	–		8,292
Provision for impairment of intangible assets	173,723	–	–	–		173,723
Depreciation of property, plant and equipment	869,403	123,381	288,166	32,446		1,313,396
Depreciation of investment properties	15,069	1,123	22,204	2,696		41,092
Depreciation of right-of-use assets	423,211	609,246	216,498	52,237		1,301,192
Amortisation of intangible assets	420,241	17,803	19,107	1,245		458,396
Capital expenditures	3,807,802	296,956	734,471	28,664		4,867,893

5. Segment information (continued)

Segment revenue and results (continued)

(i) For the year ended 31 December 2019 and 2018 (continued)

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
Year ended 31 December 2018						
Segment results						
External segment revenue	276,985,973	14,601,174	49,009,951	3,928,723	–	344,525,821
Intersegment revenue	4,063,388	202,729	463,801	243,368	(4,973,286)	–
Revenue	281,049,361	14,803,903	49,473,752	4,172,091	(4,973,286)	344,525,821
Operating profit	11,231,364	488,427	2,066,048	392,927	(110,792)	14,067,974
Other gains, net	66,378	6,941	(181)	8,690	–	81,828
Share of profits and losses of associates and a joint venture	45,990	2,712	1,121	793,346	–	843,169
	11,343,732	498,080	2,066,988	1,194,963	(110,792)	14,992,971
Finance costs, net						(2,785,031)
Profit before tax						12,207,940
Income tax expense						(2,803,456)
Profit for the year						9,404,484
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	260,782	650	98,361	675		360,468
Provision/(reversal of provision) for impairment of inventories	51,319	647	(285)	(2,112)		49,569
Amortisation of prepaid land lease payments	32,836	339	6,256	3,920		43,351
Depreciation of property, plant and equipment	651,994	121,066	243,912	31,409		1,048,381
Depreciation of investment properties	23,165	2,229	16,414	1,032		42,840
Amortisation of intangible assets	230,785	15,191	12,158	1,973		260,107
Capital expenditures	3,245,047	147,259	456,147	17,417		3,865,870

5. Segment information (continued)

Segment assets and liabilities

(ii) As at 31 December 2019 and 2018

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
As at 31 December 2019						
Segment assets and liabilities						
Segment assets	194,842,420	14,093,474	50,711,498	13,143,861	(4,351,735)	268,439,518
Segment assets include:						
Investments in associates and joint ventures	280,118	23,926	55,076	6,693,261	–	7,052,381
Unallocated assets – Deferred tax assets						1,448,853
Total assets						269,888,371
Segment liabilities	96,238,554	9,696,935	37,593,774	2,577,672	(5,106,604)	141,000,331
Unallocated liabilities – Deferred tax liabilities and borrowings						51,948,673
Total liabilities						192,949,004
As at 31 December 2018						
Segment assets and liabilities						
Segment assets	179,476,396	11,606,634	36,205,427	11,283,868	(3,873,390)	234,698,935
Segment assets include:						
Investments in associates and joint venture	241,061	26,254	15,009	6,099,743	–	6,382,067
Unallocated assets – Deferred tax assets						1,072,142
Total assets						235,771,077
Segment liabilities	82,270,366	6,997,294	24,590,817	2,002,591	(4,267,049)	111,594,019
Unallocated liabilities – Deferred tax liabilities and borrowings						55,901,291
Total liabilities						167,495,310

The Group's operations are mainly located in the PRC and substantially all non-current assets are located in the PRC.

5. Segment information (continued)

Information about major customers

No revenue from a singular customer in the reporting period amounted to over 10% of the total revenue of the Group.

6. Revenue

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sales of goods	**423,617,369**	343,174,291
Consulting income	**576,686**	568,066
Revenue from logistics service	**416,095**	304,041
Franchise fee and other service fee from medicine chain stores	**180,447**	135,807
Import agency income	**27,845**	27,244
Others	**198,031**	94,921
Revenue from other sources		
Operating lease income (Note 16)	**256,253**	221,451
	425,272,726	344,525,821

Revenue from contracts with customers

Disaggregated revenue information

For the year ended 31 December 2019

Segments	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Others RMB'000	Total RMB'000
Type of goods or services					
Sale of goods	331,241,773	18,923,303	68,824,857	4,627,436	423,617,369
Others	849,334	340,115	188,149	21,506	1,399,104
Total revenue from contracts with customers	332,091,107	19,263,418	69,013,006	4,648,942	425,016,473
Geographical market					
China	332,091,107	19,263,418	69,013,006	4,648,942	425,016,473
Timing of revenue recognition					
Recognised at a point in time	332,091,107	19,263,418	69,013,006	4,648,942	425,016,473

6. Revenue (continued)

Revenue from contracts with customers (continued)

Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Others RMB'000	Total RMB'000
Type of goods or services					
Sale of goods	276,292,019	14,091,765	48,875,767	3,914,740	343,174,291
Others	693,954	287,958	134,184	13,983	1,130,079
Total revenue from contracts with customers	276,985,973	14,379,723	49,009,951	3,928,723	344,304,370
Geographical market					
China	276,985,973	14,379,723	49,009,951	3,928,723	344,304,370
Timing of revenue recognition					
Recognised at a point in time	276,985,973	14,379,723	49,009,951	3,928,723	344,304,370

Revenue included in the contract liability at the beginning of the reporting period will be recognised from performance obligations satisfied in previous periods. Revenue from delivering products and services of RMB5,434,543,000 was recognised in the current year.

Performance obligations

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

Sale of goods

Revenue is recognised when control of the goods has transferred and payment is generally due within 30 to 210 days from delivery.

Others

The performance obligation is satisfied upon completion of services and payment is generally due within 30 to 210 days from completion.

7. Other income

	2019 RMB'000	2018 RMB'000
Government grants	**441,164**	413,764

Government grants mainly represent subsidy income received from various government authorities as incentives to certain members of the Group.

8. Impairment losses on financial and contract assets

	2019 RMB'000	2018 RMB'000
Impairment of financial and contract assets, net:		
Trade and bills receivables (Note 29)	**299,290**	335,318
Contract assets (Note 30)	**15,121**	(852)
Other receivables (Note 31)	**101,678**	26,790
Other non-current assets	**302**	(788)
	416,391	360,468

9. Other gains, net/Other expenses

	2019 RMB'000	2018 RMB'000
Write-back of certain liabilities	**40,823**	45,614
Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiary (Note 43)	**29,790**	433
Gain on disposal of an investment in an associate	**40,384**	–
Gain on disposal of investment properties, property, plant and equipment and intangible assets	**8,700**	24,271
Loss on disposal of right-of-use assets/prepaid land lease payments	**(3,890)**	(8,520)
Foreign exchange loss, net	**(12,812)**	(32,735)
Donation	**(64,473)**	(59,372)
Interest income from asset-backed securities	**6,040**	18,635
Dividend income from:		
Equity investments at fair value through other comprehensive income	**814**	850
Equity investments at fair value through profit or loss	**1,511**	2,464
Fair value gains, net:		
Equity investments at fair value through profit or loss	**(153)**	41,662
Debt investments at fair value through profit or loss	**9,830**	44,938
Disposal of financial assets at fair value through profit or loss	**6,297**	–
Provision for impairment of property, plant and equipment	**(8,292)**	–
Provision for impairment of an investment in an associate	**(1,857)**	–
Others, net	**467**	3,588
	53,179	81,828
Provision for impairment of intangible assets	**(173,723)**	–

10. Expenses by nature

	2019 RMB'000	2018 RMB'000
Raw materials and trading merchandise consumed	386,924,377	312,544,049
Changes in inventories of finished goods and work in progress	20,905	(62,060)
Employee benefit expenses (Note 11)	10,405,896	8,448,589
Impairment of inventories, net (Note 28)	5,389	49,569
Lease rental in respect of land and buildings	–	1,297,948
Lease payments not included in the measurement of lease liabilities (Note 16(d))	475,449	–
Depreciation of property, plant and equipment (Note 18)	1,313,396	1,048,381
Depreciation of investment properties (Note 17)	41,092	42,840
Depreciation of right-of-use assets (Note 16(b)) (2018: Amortisation of prepaid land lease payments (Note 16(a)))	1,301,192	43,351
Amortisation of intangible assets (Note 19)	458,396	260,107
Auditor's remuneration		
– statutory audit services	42,045	35,102
– non-statutory audit services	1,707	1,316
– non-audit services	2,082	2,749
Advisory and consulting fees	366,995	263,364
Transportation expenses	1,395,664	1,206,374
Travel expenses	452,812	421,094
Market development and business promotion expenses	2,555,121	2,100,569
Utilities	204,371	172,802
Others	1,243,689	1,306,167
Total cost of sales, selling and distribution expenses, and administrative expenses	407,210,578	329,182,311

11. Employee benefit expenses

	2019 RMB'000	2018 RMB'000
Salaries, wages, allowances and bonuses (i)	**8,220,976**	6,547,004
Contributions to pension plans (ii)	**836,859**	752,990
Post-employment benefits (Note 37)	**5,281**	45,943
Housing benefits (iii)	**344,193**	281,534
Share incentive expenses (Note 49)	**5,753**	19,983
Other benefits (iv)	**992,834**	801,135
	10,405,896	8,448,589

Notes:

(i) Bouns was determined based on the performance of the Group as well as employees' performance and contribution to the Group.

(ii) As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at 8% (2018: 7% to 10%) of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 12% to 20% (2018: 14% to 28%) of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees.

Contributions totalling RMB9,864,000 (31 December 2018: RMB8,589,000) were payable to the fund at the year end of 31 December 2019.

(iii) Housing benefits represent contributions to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.

(iv) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

11. Employee benefit expenses (continued)

Notes (continued):

(v) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2018: two) directors whose emoluments are reflected in the analysis shown in Note 50. The emoluments payable to the remaining two (2018: three) individuals during the year are as follows:

	2019 RMB'000	2018 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,595	10,940
Bonuses	4,716	2,959
Contributions to pension schemes	330	347
Share incentive expenses	–	817
	7,641	15,063

	2019 Number	2018 Number
Emolument bands		
HKD1,500,001 – HKD2,000,000 (RMB1,330,301 – RMB1,773,700)	–	1
HKD3,500,001 – HKD4,000,000 (RMB3,104,001 – RMB3,547,500)	1	–
HKD4,500,001 – HKD5,000,000 (RMB3,990,901 – RMB4,434,300)	1	–
HKD6,500,001 – HKD7,000,000 (RMB5,764,601 – RMB6,208,000)	–	1
HKD8,000,001 – HKD8,500,000 (RMB7,094,901 – RMB7,538,300)	–	1

(vi) For the years ended 31 December 2018 and 2019, no director or such highly paid individual received emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or had agreed to waive any emoluments.

12. Finance income and costs

	2019 RMB'000	2018 RMB'000
Interest expense:		
– Borrowings	**2,682,134**	2,552,537
– Discount of bills receivable	**577,748**	510,756
– Net interest on net defined benefit liability (Note 37)	**13,188**	13,245
– Lease liabilities (Note 16(c))	**172,056**	–
Gross interest expense	**3,445,126**	3,076,538
Bank charges	**214,354**	209,785
Less: Capitalised interest expense (Note 18)	**(2,619)**	(6,511)
Finance costs	**3,656,861**	3,279,812
Finance income:		
– Interest income on deposits in banks or other financial institutions	**(430,208)**	(418,732)
– Interest income on long-term deposits	**(83,189)**	(76,049)
	(513,397)	(494,781)
Net finance costs	**3,143,464**	2,785,031

13. Taxation

	2019 RMB'000	2018 RMB'000
Current income tax	**3,538,377**	2,982,039
Deferred income tax (Note 26)	**(398,639)**	(178,583)
	3,139,738	2,803,456

13. Taxation (continued)

A reconciliation of the tax charge applicable to profit before tax using the applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	**13,759,810**	12,207,940
Less: Share of profits and losses of associates and joint ventures	**(887,074)**	(843,169)
	12,872,736	11,364,771
Tax calculated at the applicable tax rate	**3,218,184**	2,841,193
Impact of lower tax rates enacted by local authority	**(205,985)**	(131,647)
Expenses not deductible for tax purposes	**146,145**	97,323
Income not subject to tax	**(11,900)**	(8,333)
Tax losses not recognised	**63,008**	63,463
Tax losses utilised from previous periods	**(4,023)**	(308)
Impact of change in the applicable income tax rate on deferred tax	**(649)**	(113)
Income tax refund	**(65,042)**	(58,122)
Income tax expense	**3,139,738**	2,803,456

During 2019, enterprises established in the PRC are normally subject to enterprise income tax ("EIT") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operation in designated areas with preferential EIT policies.

Two of the Group's subsidiaries were subject to Hong Kong profits tax at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong during the year, except for one subsidiary of the Group which was a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HKD2,000,000 (2018: Nil) of assessable profits of this subsidiary was taxed at 8.25% and the remaining assessable profits were taxed at 16.5%.

13. Taxation (continued)

The tax credit/(charge) relating to the components of other comprehensive loss is as follows:

	2019			2018		
	Before tax RMB'000	Tax (charge)/ credit RMB'000	After tax RMB'000	Before tax RMB'000	Tax credit RMB'000	After tax RMB'000
Equity investments at fair value through other comprehensive income	8,716	(2,179)	6,537	(10,833)	2,815	(8,018)
Remeasurement of post-employment benefit obligations	(22,835)	5,502	(17,333)	(18,447)	3,797	(14,650)
	(14,119)	3,323	(10,796)	(29,280)	6,612	(22,668)

14. Earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent excluding the cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as at the end of the reporting period and the weighted average number of ordinary shares of 2,971,656,000 (31 December 2018: 2,971,656,000) in issue excluding restricted shares at the end of the reporting period.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the restricted shares expected to be unlocked in the future. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and included the number of restricted shares expected to be unlocked in the future.

14. Earnings per share (continued)

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	**6,252,537**	5,835,842
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(1,182)**	(2,295)
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**6,251,355**	5,833,547
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation ('000)	**2,969,653**	2,967,629
Effect of dilution – Restricted shares ('000)	**2,003**	4,027
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation ('000)	**2,971,656**	2,971,656
Basic earnings per share (RMB per share)	**2.11**	1.97
Diluted earnings per share (RMB per share)	**2.10**	1.96

15. Dividends

The final dividend for the year 2018 of RMB0.59 per share (tax inclusive), amounting to RMB1,753,277 thousand in total, was approved by the shareholders at the annual general meeting of the Company held on 27 June 2019.

A final dividend for the year ended 31 December 2019 of RMB0.60 (tax inclusive) per ordinary share, totalling approximately RMB1,872,394 thousand, is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 29 March 2020. These financial statements have not reflected this proposed dividend.

	2019 RMB'000	2018 RMB'000
Proposed final – RMB0.60 (2018: RMB0.59) per ordinary share	**1,872,394**	1,753,277

16. Leases

The Group as a lessee

The Group has lease contracts for various items of land, buildings, plant and machinery and furniture, fittings and equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 20 and 40 years, while plant and machinery generally have lease terms between 5 and 15 years. Leases of furniture, fittings and equipment generally have lease terms between 3 and 12 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. 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	1,585,043
Additions	119,888
Acquisition of subsidiaries	32,084
Disposal	(26,339)
Amortisation (Note 10)	(43,351)
Carrying amount at 31 December 2018	1,667,325

16. Leases (continued)

The Group as a lessee (continued)

(b) Right-of-use assets

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

	Prepaid land lease payments RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Total RMB'000
At 1 January 2019, net of accumulated depreciation and impairment	1,667,325	3,750,425	263,238	2,419	5,683,407
Acquisition of subsidiaries (Note 45)	3,181	70,164	–	–	73,345
Additions	185,409	1,787,084	8,817	132	1,981,442
Disposals	–	(84,495)	(2,350)	–	(86,845)
Depreciation (Note 10)	(64,845)	(1,194,455)	(41,752)	(140)	(1,301,192)
At 31 December 2019, net of accumulated depreciation and impairment	1,791,070	4,328,723	227,953	2,411	6,350,157
At 31 December 2019:					
Cost	2,192,640	5,508,522	288,457	2,551	7,992,170
Accumulated amortisation and impairment	(401,570)	(1,179,799)	(60,504)	(140)	(1,642,013)
Net carrying amount	1,791,070	4,328,723	227,953	2,411	6,350,157

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the considerations paid for such right are recorded as prepaid land lease payments, which are amortised over the lease terms of 40 to 50 years using the straight-line method.

As at 31 December 2019, the prepaid land lease payments with a net carrying amount of approximately RMB62,140,000 (2018: RMB85,441,000) were pledged as collateral for the Group's bank borrowings (Note 33).

16. 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 RMB'000
Carrying amount at 1 January	3,677,338
New leases	1,797,640
Additions as a result of acquisition of a subsidiary (Note 45)	67,220
Accretion of interest recognised during the year	172,056
Payments	(1,341,630)
Disposals	(82,935)
Carrying amount at 31 December	4,289,689
Analysed into:	
Current portion	1,192,204
Non-current portion	3,097,485

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in Note 3 to the financial statements.

16. Leases (continued)

The Group as a lessee (continued)

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

	2019 RMB'000
Interest on lease liabilities	172,056
Depreciation charge of right-of-use assets	1,301,192
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	468,607
Expense relating to leases of low-value assets with remaining lease terms ended on or before 31 December 2019	3,875
Variable lease payments not included in the measurement of lease liabilities	2,967
Loss on disposal of items of right-of-use assets	(3,890)
Total amount recognised in profit or loss	1,944,807

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in Note 41(d) and Note 42(c), respectively, to the financial statements.

The Group as a lessor

The Group leases its investment properties (Note 17) consisting of commercial properties in Mainland China 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 RMB256,253,000 (2018: RMB221,451,000), details of which are included in note 6 to the financial statements.

At 31 December 2019 and 2018, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants falling due are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	139,646	125,680
After one year but within five years	89,988	84,821
After five years	11,888	18,437
	241,522	228,938

17. Investment properties

	2019 RMB'000	2018 RMB'000
Cost	**1,186,235**	999,246
Accumulated depreciation and impairment	**(486,804)**	(415,689)
Net carrying amount	**699,431**	583,557
Opening carrying amount	**583,557**	627,955
Additions	**18,319**	45
Acquisition of subsidiaries (Note 45)	**89,948**	–
Transfer from property, plant and equipment (Note 18)	**56,648**	32,914
Transfer to property, plant and equipment (Note 18)	**(7,949)**	(32,720)
Disposal	**–**	(1,797)
Depreciation	**(41,092)**	(42,840)
Closing carrying amount	**699,431**	583,557

Investment properties are located in Mainland China on land with the land use periods of 25 to 50 years (2018: 25 to 50 years).

As at 31 December 2019, investment properties with a carrying amount of approximately RMB25,000 (2018: RMB29,000) were pledged as collateral of the Group's bank borrowings (Note 33).

As at 31 December 2019, the fair value of the investment properties was estimated to be approximately RMB3,849,121,000 (2018: RMB3,211,446,000). The valuation was determined using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square metre.

Rental income from investment properties has been included in the consolidated statement of profit or loss as follows:

	2019 RMB'000	2018 RMB'000
Revenue (Note 6)	**256,253**	221,451

18. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018						
Cost	6,857,409	2,871,913	1,513,110	752,955	1,218,851	13,214,238
Accumulated depreciation and impairment	(1,612,091)	(1,228,787)	(921,435)	(443,428)	–	(4,205,741)
Net carrying amount	5,245,318	1,643,126	591,675	309,527	1,218,851	9,008,497
At 1 January 2018, net of accumulated depreciation and impairment	5,245,318	1,643,126	591,675	309,527	1,218,851	9,008,497
Acquisition of subsidiaries	127,945	26,539	8,048	7,205	2,956	172,693
Additions	417,785	535,009	199,870	95,259	1,805,326	3,053,249
Transfers	462,744	132,225	29,412	370	(624,751)	–
Transfer from investment properties (Note 17)	32,720	–	–	–	–	32,720
Transfer to investment properties (Note 17)	(32,914)	–	–	–	–	(32,914)
Disposals	(34,821)	(62,809)	(14,629)	(9,153)	(39,316)	(160,728)
Depreciation	(388,191)	(422,484)	(158,409)	(79,297)	–	(1,048,381)
At 31 December 2018, net of accumulated depreciation and impairment	5,830,586	1,851,606	655,967	323,911	2,363,066	11,025,136
At 31 December 2018						
Cost	7,851,922	3,480,085	1,697,790	814,882	2,363,066	16,207,745
Accumulated depreciation and impairment	(2,021,336)	(1,628,479)	(1,041,823)	(490,971)	–	(5,182,609)
Net carrying amount	5,830,586	1,851,606	655,967	323,911	2,363,066	11,025,136
At 31 December 2018						
Cost	**7,851,922**	**3,480,085**	**1,697,790**	**814,882**	**2,363,066**	**16,207,745**
Accumulated depreciation and impairment	**(2,021,336)**	**(1,628,479)**	**(1,041,823)**	**(490,971)**	**–**	**(5,182,609)**
Net carrying amount	**5,830,586**	**1,851,606**	**655,967**	**323,911**	**2,363,066**	**11,025,136**
At 31 December 2018, net of accumulated depreciation and impairment	**5,830,586**	**1,851,606**	**655,967**	**323,911**	**2,363,066**	**11,025,136**
Effect of adoption of HKFRS 16	**(32,130)**	**(105,194)**	**–**	**–**	**–**	**(137,324)**
At 1 January 2019, net of accumulated depreciation and impairment	**5,798,456**	**1,746,412**	**655,967**	**323,911**	**2,363,066**	**10,887,812**
Acquisition of subsidiaries (Note 45)	**242,362**	**74,763**	**11,716**	**13,261**	**4,227**	**346,329**
Additions	**589,434**	**553,164**	**339,106**	**119,694**	**523,911**	**2,125,309**
Transfers	**259,978**	**239,882**	**13,848**	**1,865**	**(515,573)**	**–**
Transfer from investment properties (Note 17)	**7,949**	**–**	**–**	**–**	**–**	**7,949**
Transfer to investment properties (Note 17)	**(56,648)**	**–**	**–**	**–**	**–**	**(56,648)**
Transfer to intangible assets (Note 19)	**–**	**–**	**–**	**–**	**(52,154)**	**(52,154)**
Disposals	**(32,707)**	**(136,835)**	**(28,854)**	**(14,187)**	**(11,447)**	**(224,030)**
Depreciation	**(473,051)**	**(472,846)**	**(276,569)**	**(90,930)**	**–**	**(1,313,396)**
Impairment	**–**	**(2,702)**	**(3,759)**	**–**	**(1,831)**	**(8,292)**
At 31 December 2019, net of accumulated depreciation and impairment	**6,335,773**	**2,001,838**	**711,455**	**353,614**	**2,310,199**	**11,712,879**
At 31 December 2019:						
Cost	**8,797,570**	**3,998,915**	**1,959,677**	**849,720**	**2,312,030**	**17,917,912**
Accumulated depreciation and impairment	**(2,461,797)**	**(1,997,077)**	**(1,248,222)**	**(496,106)**	**(1,831)**	**(6,205,033)**
Net carrying amount	**6,335,773**	**2,001,838**	**711,455**	**353,614**	**2,310,199**	**11,712,879**

18. Property, plant and equipment (continued)

Details of the borrowing costs capitalised into cost of property, plant and equipment are as follows:

	2019 RMB'000	2018 RMB'000
Borrowing costs capitalised	**2,619**	6,511
Weighted average rate of borrowing costs	**4.46%**	4.35%

Depreciation expense was charged to the consolidated statement of profit or loss as follows:

	2019 RMB'000	2018 RMB'000
Cost of sales	**358,357**	222,292
Selling and distribution expenses	**367,869**	307,655
Administrative expenses	**587,170**	518,434
	1,313,396	1,048,381

As at 31 December 2019, property, plant and equipment with a net carrying amount of approximately RMB83,139,000 (2018: RMB90,333,000) were pledged as collateral of the Group's bank borrowings (Note 33).

19. Intangible assets

	Goodwill RMB'000	Sales network RMB'000	Trademarks and patent rights RMB'000	Exclusive distribution rights RMB'000	Software RMB'000	Product development costs RMB'000	Favourable leasing rights RMB'000	Total RMB'000
At 1 January 2018:								
Cost	4,821,193	2,750,411	188,187	280,802	551,400	46,558	127,486	8,766,037
Accumulated amortisation and impairment	(122,240)	(905,557)	(86,953)	(105,538)	(275,680)	–	(16,621)	(1,512,589)
Net carrying amount	4,698,953	1,844,854	101,234	175,264	275,720	46,558	110,865	7,253,448
At 1 January 2018, net of accumulated amortisation and impairment	4,698,953	1,844,854	101,234	175,264	275,720	46,558	110,865	7,253,448
Additions	–	176	9,650	–	30,003	24,351	–	64,180
Acquisition of subsidiaries	200,431	223,300	–	–	–	–	–	423,731
Transfers	–	–	5,651	–	15,211	(20,862)	–	–
Disposal	–	–	–	–	(4,518)	–	–	(4,518)
Amortisation (Note 10)	–	(136,587)	(11,440)	(29,327)	(76,023)	–	(6,730)	(260,107)
At 31 December 2018, net of accumulated amortisation and impairment	4,899,384	1,931,743	105,095	145,937	240,393	50,047	104,135	7,476,734
At 31 December 2018 and 1 January 2019:								
Cost	5,021,624	2,973,887	203,488	280,802	591,127	50,047	127,486	9,248,461
Accumulated amortisation and impairment	(122,240)	(1,042,144)	(98,393)	(134,865)	(350,734)	–	(23,351)	(1,771,727)
Net carrying amount	4,899,384	1,931,743	105,095	145,937	240,393	50,047	104,135	7,476,734

19. Intangible assets (continued)

	Goodwill RMB'000	Sales network RMB'000	Trademarks and patent rights RMB'000	Exclusive distribution rights RMB'000	Software RMB'000	Product development costs RMB'000	Favourable leasing rights RMB'000	Total RMB'000
At 1 January 2019, net of accumulated amortisation and impairment	4,899,384	1,931,743	105,095	145,937	240,393	50,047	104,135	7,476,734
Additions	–	–	6,442	–	135,563	22,577	–	164,582
Acquisition of subsidiaries (Note 45)	905,540	987,660	–	36,480	5,136	–	–	1,934,816
Transfers	–	–	–	–	6,279	(6,279)	–	–
Transfers from property, plant and equipment	–	–	–	–	52,154	–	–	52,154
Disposal	–	–	–	–	(7,317)	–	–	(7,317)
Amortisation (Note 10)	–	(191,795)	(10,365)	(152,316)	(96,478)	–	(7,442)	(458,396)
Impairment	(140,852)	(32,871)	–	–	–	–	–	(173,723)
At 31 December 2019, net of accumulated amortisation and impairment	5,664,072	2,694,737	101,172	30,101	335,730	66,345	96,693	8,988,850
At 31 December 2019:								
Cost	5,927,164	3,980,472	209,930	36,480	769,040	66,345	127,486	11,116,917
Accumulated amortisation and impairment	(263,092)	(1,285,735)	(108,758)	(6,379)	(433,310)	–	(30,793)	(2,128,067)
Net carrying amount	5,664,072	2,694,737	101,172	30,101	335,730	66,345	96,693	8,988,850

Amortisation expense charged to the consolidated statement of profit or loss is as follows:

	2019 RMB'000	2018 RMB'000
Selling and distribution expenses	**344,111**	142,870
Administrative expenses	**114,285**	117,237
	458,396	260,107

19. Intangible assets (continued)

Impairment tests for goodwill:

Goodwill is allocated to the Group's cash-generating units ("CGUs"), identified by the operating segment, as follows:

2019	**Opening RMB'000**	**Additions RMB'000**	**Impairment RMB'000**	**Disposal of subsidiaries RMB'000**	**Closing RMB'000**
Pharmaceutical distribution	**3,431,980**	**244,240**	**(121,889)**	**–**	**3,554,331**
Medical devices	**704,510**	**512,742**	**(18,963)**	**–**	**1,198,289**
Retail pharmacy	**717,606**	**148,558**	**–**	**–**	**866,164**
Other businesses	**45,288**	**–**	**–**	**–**	**45,288**
	4,899,384	**905,540**	**(140,852)**	**–**	**5,664,072**

2018	Opening RMB'000	Additions RMB'000	Impairment RMB'000	Disposal of subsidiaries RMB'000	Closing RMB'000
Pharmaceutical distribution	3,237,492	194,488	–	–	3,431,980
Medical devices	704,510	–	–	–	704,510
Retail pharmacy	711,663	5,943	–	–	717,606
Other businesses	45,288	–	–	–	45,288
	4,698,953	200,431	–	–	4,899,384

The recoverable amount of a CGU is determined based on the higher of value-in-use and fair value less costs of disposal. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate.

19. Intangible assets (continued)

The key assumptions, long-term growth rates and discount rates used for value-in-use calculations of significant CGUs in 2019 are as follows:

	CGU1	CGU2	CGU3	CGU4	CGU5
Segment	Pharmaceutical distribution			Medical device distribution	Pharmaceutical distribution
Goodwill (RMB'000)	1,081,882	191,420	184,055	163,972	143,835
Revenue growth rates in the budget period	4.10%-11.80%	7.00%-10.00%	3.00%~8.00%	10.00%-28.50%	0.00%-3.00%
Gross margin	6.90%-7.10%	6.00%-6.80%	4.80%	30.00%-32.60%	6.00%-7.10%
Growth rates to extrapolate cash flows beyond the budget period	3.00%	3.00%	3.00%	3.00%	3.00%
Discount rate	16.40%	16.21%	16.32%	16.94%	16.77%

Management determined the budgeted gross margin and growth rates based on past performance of the CGUs and expectations for market development. The discount rates used are before tax after reflecting specific risks of the relevant businesses.

During the reporting period, after comparing the carrying values of the CGUs containing the goodwill with those recoverable amounts, the Group provided goodwill impairment amounting to RMB140,852,000 and intangible asset impairment amounting to RMB32,871,000 related to the two CGUs in pharmaceutical distribution segment and the CGU in medical devices segment, which was recognised in the consolidated statement of profit or loss as other expenses. The recoverable amounts of aforementioned CGUs are determined by the carrying amount of estimated future cash flows of CGUs according to the cash flow projection based on a five-year financial budget. The discount rate used for cash flow projections of CGUs is 16.21% to 16.94%, which infer that the inflation rate after the projection period is 3%.

On October 15, 2019, the board approved the reorganization proposal of CGU6 and CGU7, which has completed in January 2020. As CGU6 and CGU7 are both in Shanghai area the main business is retail pharmacy, the management recombined the business by improving the strategic layout and integrating the purchase channels. The group will have overall assessment for mentioned-above operating activities regularly, and allocate resources accordingly. Therefore, CGU6 and CGU7 are regarded as one cash-generated unit this year.

20. Subsidiaries

The principal subsidiaries of the Company are set out in Note 47.

Material non-controlling interests

The total non-controlling interests as at 31 December 2019 amounted to RMB29,517,221,000 (31 December 2018: RMB25,453,941,000), of which RMB6,044,641,000 (2018: RMB5,171,903,000) was attributed to China National Medicines Corporation Ltd. ("National Medicines") and RMB8,180,564,000 (2018: RMB7,474,099,000) was attributed to China National Accord Medicines Co., Ltd. ("Sinopharm Accord"). The non-controlling interest in respect of each other subsidiaries is not material.

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information of each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

	National Medicines		Sinopharm Accord	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Current				
Assets	**21,676,007**	19,323,293	**26,652,455**	24,495,616
Liabilities	**(11,603,287)**	(10,625,174)	**(16,730,453)**	(14,757,811)
Total current net assets	**10,072,720**	8,698,119	**9,922,002**	9,737,805
Non-current				
Assets	**2,517,644**	2,186,476	**6,868,154**	4,428,073
Liabilities	**(431,601)**	(274,943)	**(1,430,318)**	(266,551)
Total non-current net assets	**2,086,043**	1,911,533	**5,437,836**	4,161,522
Net assets	**12,158,763**	10,609,652	**15,359,838**	13,899,327

20. Subsidiaries (continued)

Summarised financial information of subsidiaries with material non-controlling interests (continued)

Summarised statement of profit or loss

	National Medicines		Sinopharm Accord	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Revenue	**44,644,476**	38,739,827	**52,045,764**	43,122,386
Profit before income tax	**2,426,557**	2,023,214	**1,856,658**	1,673,553
Income tax expense	**(546,080)**	(430,557)	**(372,439)**	(330,498)
Post-tax profit	**1,880,477**	1,592,657	**1,484,219**	1,343,055
Other comprehensive income/(loss)	**6,559**	(7,815)	**76,618**	–
Total comprehensive income	**1,887,036**	1,584,842	**1,560,837**	1,343,055
Total comprehensive income allocated to non-controlling interests	**1,009,764**	815,834	**822,411**	667,621
Dividends paid to non-controlling interests	**248,438**	247,584	**115,946**	123,138

20. Subsidiaries (continued)

Summarised financial information of subsidiaries with material non-controlling interests (continued)

Summarised cash flows

	National Medicines		Sinopharm Accord	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows from operating activities				
Cash generated from operations	**2,319,860**	1,417,546	**2,358,291**	1,641,091
Income tax paid	**(543,790)**	(435,892)	**(357,939)**	(318,485)
Net cash from operating activities	**1,776,070**	981,654	**2,000,352**	1,322,606
Net cash from/(used in) investing activities	**14,662**	(194,590)	**(240,447)**	(222,458)
Net cash (used in)/from financing activities	**(1,216,823)**	(1,072,905)	**(969,170)**	2,858,781
Net increase/(decrease) in cash and cash equivalents	**573,909**	(285,841)	**790,735**	3,958,929
Cash and cash equivalents at beginning of year	**5,053,613**	5,339,722	**7,632,117**	3,673,499
Effect of foreign exchange rate changes, net	**(677)**	(268)	**(176)**	(311)
Cash and cash equivalents at end of year	**5,626,845**	5,053,613	**8,422,676**	7,632,117

The information above is the amounts before inter-company eliminations.

21. Investments in associates

	2019 RMB'000	2018 RMB'000
Share of net assets	**6,991,774**	6,332,163
Goodwill	**26,333**	26,333
	7,018,107	6,358,496

	2019 RMB'000	2018 RMB'000
At 1 January	**6,358,496**	5,479,340
Other additions	**94,445**	476,000
Reclassification from investments in subsidiaries upon cessation of control	**38,257**	3,500
Share of results	**876,381**	833,203
Unrealised loss/(gain) on transactions with associates	**3,075**	(8,014)
Share of other comprehensive loss	**(703)**	(600)
Share of changes in equity other than comprehensive income and distributions received from associates	**86,815**	81,069
Other changes in an investment in an associate	**–**	(115,685)
Dividends declared by associates attributable to the Group	**(436,802)**	(390,317)
Impairment	**(1,857)**	–
At 31 December	**7,018,107**	6,358,496

21. Investments in associates (continued)

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of equity interest attributable to the Group 2019(ii)	2018(ii)	Principal activity
Shanghai Modern Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司)(i)	Ordinary shares of RMB1 each	Mainland China	**18.14%**	18.14%	Pharmaceutical manufacturing

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) The Group's investment in this associate is accounted for under the equity method of accounting because the Group has significant influence over it by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's equity interests in it were lower than 20% for the year ended 31 December 2019 and the year ended 31 December 2018.

The following table illustrates the summarised financial information of Shanghai Modern Pharmaceutical Co., Ltd. extracted from its financial statements, reconciled to the carrying amount in the consolidated financial statements:

	2019 RMB'000
Current assets	**9,676,373**
Non-current assets	**7,962,091**
Current liabilities	**(6,491,804)**
Non-current liabilities	**(1,943,466)**
Non-controlling interests	**(1,615,724)**
Net assets	**7,587,470**
Proportion of the Group's ownership	**18.14%**
Carrying amount of the investment	**1,376,367**
Revenue	**12,199,107**
Profit for the year	**928,467**
Other comprehensive income	**(819)**
Dividend declared	**16,100**

21. Investments in associates (continued)

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

	2019 RMB'000
Share of the associates' profit for the year	752,527
Share of the associates' other comprehensive income	(555)
Share of the associates' total comprehensive income	751,973
Aggregate carrying amount of the Group's investments in the associates	5,641,740

22. Equity investments designated at fair value through other comprehensive income

	2019 RMB'000	2018 RMB'000
Listed equity investment, at fair value		
Jiangsu Lianhuan Pharmaceutical Group Co., Ltd.	29,229	22,325
Unlisted equity investments, at fair value		
Suzhou Liuliu Vision Technology Co., Ltd.	2,284	2,284
Horgos Boyun Limin E-commerce Co., Ltd.	3,807	1,127
Beijing Guokong Cloud Pharmacy Co., Ltd.	615	553
Zhejiang Wahaha Industrial Co., Ltd.	500	500
Sinopharm (Shanghai) E-commerce Co., Ltd.	470	470
Hunan Zhongbai Pharmaceutical Investment Co., Ltd.	315	315
Shenzhen Zhonglian Guangshen Pharmaceutical Group Co., Ltd.	293	–
Shanghai Guoda Shuguang Pharmacy Co., Ltd.	271	271
Jinzhou Guoyaotang Pharmacy Co., Ltd.	250	250
Wuhan Gaoke Medical Device Enterprise Incubation Co., Ltd.	150	150
Shanghai Guoren Pharmacy Co., Ltd.	100	100
Guoyatangtang Pharmacy (Shenyang) Co., Ltd.	–	30
	9,055	6,050
	38,284	28,375

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

(ii) During the year ended 31 December 2019, the Group received dividends in an aggregate amount of RMB509,000 (2018: RMB850,000).

23. Financial assets at fair value through profit or loss

	2019 RMB'000	2018 RMB'000
Listed equity investments, at fair value	**156**	399
Unlisted equity investments, at fair value	**515,982**	510,983
Asset-backed securities, at fair value (Note 3 (3)(iii))	**39,000**	40,800
Investments in funds, at fair value	**174,910**	143,689
	730,048	695,871
Less: Current portion	**(156)**	(41,199)
	729,892	654,672

24. Finance lease receivables

	2019 RMB'000	2018 RMB'000
Finance lease receivables	**27,438**	16,226
Less: Unearned finance income	**(1,185)**	(1,644)
Net finance lease receivables	**26,253**	14,582
Less: Current portion	**(7,965)**	(4,917)
	18,288	9,665

25. Financial instruments by category

At 31 December 2019

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit and loss RMB'000	Equity investments at fair value through other comprehensive income RMB'000	Debt investments at fair value through other comprehensive income RMB'000	Total RMB'000
Financial assets included in other non-current assets	2,455,911	–	–	–	2,455,911
Equity investments designated at fair value through other comprehensive income	–	–	38,284	–	38,284
Financial assets at fair value through profit and loss (Note 23)	–	730,048	–	–	730,048
Finance lease receivables (Note 24)	26,253	–	–	–	26,253
Trade and bills receivables (Note 29)	113,652,903	–	–	8,614,014	122,266,917
Contract Assets (Note 30)	510,556	–	–	–	510,556
Financial assets included in prepayments, other receivable and other assets	5,191,256	–	–	–	5,191,256
Pledged deposits and cash (Note 32)	10,653,633	–	–	–	10,653,633
Cash and cash equivalents (Note 32)	39,191,967	–	–	–	39,191,967
	171,682,479	730,048	38,284	8,614,014	181,064,825

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings (Note 33)	50,849,565
Trade and bills payables (Note 34)	100,333,768
Dividends payable (Note 15)	368,295
Lease liabilities (Note 16(c))	4,289,689
Financial liabilities included in accruals and other payables	24,195,919
Financial liabilities included in other non-current liabilities (Note 38)	39,000
	180,076,236

25. Financial instruments by category (continued)

At 31 December 2018

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit and loss RMB'000	Equity investments at fair value through other comprehensive income RMB'000	Debt investments at fair value through other comprehensive income RMB'000	Total RMB'000
Financial assets included in other non-current assets	1,918,795	–	–	–	1,918,795
Equity investments designated at fair value through other comprehensive income	–	–	28,375	–	28,375
Financial assets at fair value through profit and loss (Note 23)	–	695,871	–	–	695,871
Finance lease receivables (Note 24)	14,582	–	–	–	14,582
Trade and bills receivables (Note 29)	100,852,032	–	–	5,571,562	106,423,594
Financial assets included in prepayments, other receivables and other assets	4,748,588	–	–	–	4,748,588
Pledged deposits and cash (Note 32)	7,188,543	–	–	–	7,188,543
Cash and cash equivalents (Note 32)	40,298,985	–	–	–	40,298,985
	155,021,525	695,871	28,375	5,571,562	161,317,333

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings (Note 33)	55,036,385
Trade and bills payables (Note 34)	83,682,927
Dividends payable (Note 15)	185,662
Financial liabilities included in accruals and other payables	16,218,649
Financial liabilities included in other non-current liabilities (Note 38)	67,934
	155,191,557

26. Deferred income tax

	2019 RMB'000	2018 RMB'000
Deferred tax assets	1,448,853	1,072,142
Deferred tax liabilities	(1,099,108)	(864,906)
	349,745	207,236

The movements in deferred tax assets and liabilities are as follows:

Deferred tax assets

	Employee benefit obligations RMB'000	Impairment provision for assets RMB'000	Unrealised profits RMB'000	Tax losses RMB'000	Share based payments RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	215,824	306,699	22,418	50,965	7,801	–	316,491	920,198
Acquisition of subsidiaries	–	5,937	–	–	–	–	312	6,249
(Charged)/credited to the consolidated statement of profit or loss	(58,008)	84,219	1,093	35,798	(299)	–	79,727	142,530
Credited to other comprehensive income	3,797	–	–	–	–	–	–	3,797
Charged to capital surplus	–	–	–	–	(632)	–	–	(632)
At 31 December 2018	161,613	396,855	23,511	86,763	6,870	–	396,530	1,072,142
Acquisition of subsidiaries (Note 45)	–	17,258	–	–	–	–	2,000	19,258
Credited to the consolidated statement of profit or loss	16,601	84,728	3,950	19,990	1,124	27,526	203,314	357,233
Credited to other comprehensive income	5,502	–	–	–	–	–	–	5,502
Charged to capital surplus	–	–	–	–	(4,542)	–	–	(4,542)
Disposal of subsidiaries (Note 43)	–	(740)	–	–	–	–	–	(740)
At 31 December 2019	183,716	498,101	27,461	106,753	3,452	27,526	601,844	1,448,853

26. Deferred income tax (continued)

Deferred tax liabilities

	Fair value adjustments on assets relating to business combinations	Fair value gains on equity investments at fair value through profit and loss	Fair value gains on equity investments at fair value through other comprehensive income	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	772,410	2,468	7,709	63,979	846,566
Acquisition of subsidiaries	57,321	–	–	–	57,321
(Credited)/charged to the consolidated statement of profit or loss	(59,014)	20,773	–	2,188	(36,053)
Credited to other comprehensive income	–	–	(2,815)	–	(2,815)
Disposal of subsidiaries	–	–	–	(113)	(113)
At 31 December 2018	770,717	23,241	4,894	66,054	864,906
Acquisition of subsidiaries (Note 45)	**273,430**	**–**	**–**	**–**	**273,430**
Credited/(charged) to the consolidated statement of profit or loss	**(64,405)**	**(1,661)**	**–**	**24,660**	**(41,406)**
Charged to other comprehensive income	**–**	**–**	**2,178**	**–**	**2,178**
At 31 December 2019	**979,742**	**21,580**	**7,072**	**90,714**	**1,099,108**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. Based on the above principle, the Group did not recognise deferred tax assets of approximately RMB63,008,000 (2018: RMB63,463,000) in respect of tax losses amounting to approximately RMB252,032,000 (2018: RMB253,852,000). As at 31 December 2019, these unrecognised tax losses amounting to RMB25,532,000, RMB48,651,000, RMB53,839,000, RMB51,778,000 and RMB72,232,000 will expire in 2020, 2021, 2022, 2023 and 2024 respectively.

27. Other non-current assets

	2019 RMB'000	2018 RMB'000
Long-term deposits	**1,961,582**	1,819,750
Contract assets	**156,868**	53,705
Prepayment for land lease payments	**17,542**	21,000
Continuing involvement assets (Note 3 (3)(iii))	**39,000**	–
Instalment sales	**454,626**	99,235
Others	**220,541**	223,330
	2,850,159	2,217,020
Impairment	**(491)**	(189)
	2,849,668	2,216,831

The movements in the loss allowance for impairment of non-current assets are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**189**	977
Provision/(reversal of provision) for impairment (Note 10)	**302**	(788)
At end of year	**491**	189

28. Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	**162,024**	140,407
Work in progress	**20,207**	34,772
Finished goods and trading merchandise	**42,601,804**	35,420,877
	42,784,035	35,596,056
Less: Provision for impairment	**(189,639)**	(207,193)
	42,594,396	35,388,863

The cost of inventories included in cost of sales amounted to RMB386,945,282,000 (2018: RMB312,481,989,000).

Movements in provision for impairment of inventories are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	**207,193**	179,786
Acquisition of subsidiaries	**139**	277
Provision for the year (Note 10)	**5,389**	49,569
Write-off for the year	**(23,082)**	(22,439)
At 31 December	**189,639**	207,193

29. Trade and bills receivables

	2019 RMB'000	2018 RMB'000
Trade receivables	**111,058,298**	97,845,345
Bills receivable	**12,791,131**	9,828,703
	123,849,429	107,674,048
Less: Provision for impairment	**(1,582,512)**	(1,250,454)
	122,266,917	106,423,594

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

The term of bills receivable are all less than 12 months. Retail sales at the Group's medicine chain stores are generally made in cash or by debit or credit cards. For medicine distribution and medicine manufacturing businesses, sales are made on credit terms ranging from 30 to 210 days. The ageing analysis of trade receivables, based on the invoice date and net of provisions, as at the end of the reporting period, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**107,850,187**	95,567,013
1 to 2 years	**1,437,537**	888,066
Over 2 years	**224,072**	146,196
	109,511,796	96,601,275

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing. See Note 3(1)(iii) and Note 4(4) for further information about expected credit loss provision.

29. Trade and bills receivables (continued)

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

	2019 RMB'000	2018 RMB'000
At beginning of year	**1,250,454**	908,413
Acquisition of subsidiaries	**31,745**	6,855
Provision for impairment, net (Note 8)	**299,290**	335,318
Other increase for the year	**5,827**	5,831
Write-off	**(4,804)**	(5,963)
At end of year	**1,582,512**	1,250,454

The maximum exposure to credit risk as at 31 December 2019 was the carrying value of each category of receivables mentioned above and in Note 31.

As at 31 December 2019, bills receivable of RMB275,574,000 (2018: RMB386,318,000) and trade receivable of RMB691,263,000 (2018: RMB510,643,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2019, bills receivable of RMB71,524,000 (2018: RMB699,409,000) were pledged as collateral for the Group's note payable.

As at 31 December 2019, outstanding trade receivables of RMB42,814,154,000 (2018: RMB25,425,928,000) were derecognised under the trade receivables factoring programs without recourse. The ageing of these derecognised trade receivables was basically within one year. As at 31 December 2019, the collection of such trade receivables on behalf of banks amounting to RMB7,415,018,000 (2018: RMB3,567,177,000) and the collection of such trade receivables on behalf of related parties amounting to RMB1,171,691,000 (2018: RMB465,611,000) were recorded in other payables.

30. Contract assets

	2019 RMB'000	2018 RMB'000
Contract asset arising from:		
Sale of goods	**377,739**	259,224
Less: Provision for impairment	**(24,051)**	(8,930)
	353,688	250,294

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. The contract assets are transferred to trade receivables when the rights become unconditional other than passage of time.

The movements in the loss allowance for impairment of contract assets are as follows:

	2019 RMB'000	2018 RMB'000
At Beginning of year	**8,930**	9,782
Provision/(reversal of provision) for impairment (Note 8)	**15,121**	(852)
At end of year	**24,051**	8,930

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing. See Note 3(1)(iii) and Note 4(4) for further information about expected credit loss provision.

The expected timing of recovery or settlement for contract assets as at 31 December 2019 was within one year.

31. Prepayments, other receivables and other assets

	2019 RMB'000	2018 RMB'000
Prepayments	**8,501,792**	9,428,864
Value-added tax recoverable	**935,107**	633,305
Deposits	**2,201,998**	1,683,696
Staff advances	**89,727**	75,272
Amounts due from related parties (Note 46)		
– other receivables	**100,954**	188,569
– prepayments	**202,782**	185,424
Purchase rebate	**1,304,993**	1,506,441
Other receivables	**1,926,052**	1,592,121
	15,263,405	15,293,692
Less: Provision for impairment	**(332,439)**	(235,514)
	14,930,966	15,058,178

The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**235,514**	211,705
Acquisition from business combination	**–**	447
Impairment losses (Note 8)	**101,678**	26,790
Other increase	**1,615**	221
Amount written off as uncollectible	**(6,368)**	(3,649)
At end of year	**332,439**	235,514

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

32. Pledged deposits and restricted cash, and cash and cash equivalents

	2019 RMB'000	2018 RMB'000
Pledged deposits and restricted cash		
Pledged bank deposits	10,652,633	7,120,543
Bank deposits with an initial term of over three months	1,000	68,000
	10,653,633	7,188,543
Cash and cash equivalents		
– Cash on hand	10,338	10,045
– Cash at banks	36,398,551	36,826,504
– Cash in other financial institutions (Note 46)	2,783,078	3,462,436
	39,191,967	40,298,985
Pledged deposits and restricted cash, and cash and cash equivalents		
Denominated in		
– RMB	49,558,370	47,289,485
– USD	206,718	113,313
– EUR	61,815	46,307
– HKD	9,040	36,711
– Others	9,657	1,712
	49,845,600	47,487,528

Bank deposits are pledged as collateral for the following:

	2019 RMB'000	2018 RMB'000
Bank acceptance notes	10,213,536	6,927,037
Borrowings	2,703	6,443
Letters of credit	288,430	119,022
Letters of guarantee	34,911	4,586
Others	113,053	63,455
	10,652,633	7,120,543

The maximum exposure to credit risk as at 31 December 2019 and 2018 approximated to the carrying values of pledged deposits and restricted cash, and cash and cash equivalents.

32. Pledged deposits and restricted cash, and cash and cash equivalents

(continued)

RMB is not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange controls promulgated by the PRC authorities.

The effective interest rate of bank deposits in banks and other financial institutions is as follows:

	2019	2018
Weighted average effective interest rate (per annum)	1.08%	1.01%

33. Interest-bearing bank and other borrowings

	2019 RMB'000	2018 RMB'000
Non-current		
Secured bank borrowings	–	9,000
Unsecured bank borrowings	400,554	606,710
Unsecured borrowings from other financial institutions and related parties	60,152	41,600
Bond (Notes)	7,912,144	4,293,857
	8,372,850	4,951,167
Current		
Secured bank borrowings	1,515,005	995,068
Unsecured bank borrowings	26,365,060	29,501,455
Unsecured borrowings from other financial institutions and related parties	1,286,187	1,323,904
Secured borrowings from other financial institutions and related parties	121,731	274,817
Bond (Notes)	13,188,732	17,989,974
	42,476,715	50,085,218
Total borrowings	50,849,565	55,036,385
The carrying amounts of the Group's borrowings are denominated in the following currencies:		
– RMB	50,849,565	54,929,985
– USD	–	27,927
– EUR	–	78,473
	50,849,565	55,036,385

33. Interest-bearing bank and other borrowings (continued)

Notes:

On 9 March 2016, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB12,852,000 in relation to the issuance, the total net proceeds were approximately RMB3,987,148,000. The bonds will mature 5 years from the issue date (i.e., 9 March 2021), and the annual interest rate is 2.92%. The Company had the right for early redemption at the end of the third year, i.e., 9 March 2019. Interest is paid on an annual basis. The Company exercised its early redemption right and repurchased bonds of RMB3,459,990,000 in 2019. As at 31 December 2019, the remaining corporate bonds of RMB540,010,000 were classified as non-current liabilities.

On 26 October 2017, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB1,000,000,000. The corporate bonds will expire on 26 October 2022, for a period of five years commencing from the issue date of 26 October 2017. The Company has the right for early redemption at the end of the third year, i.e., 26 October 2020. The annual interest rate of the corporate bonds for the first three years is fixed at 4.80%. Interest is paid on an annual basis. As at 31 December 2019, the corporate bonds were classified as current liabilities.

On 9 July 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,843,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,157,000. The bonds would mature 270 days from the issue date (i.e., 5 April 2019), and the annual interest rate was 4.29%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 27 August 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB2,483,000 in relation to the issuance, the total net proceeds were approximately RMB2,997,517,000. The bonds would mature 180 days from the issue date (i.e., 23 February 2019), and the annual interest rate was 3.60%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 14 September 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,654,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,346,000. The bonds would mature 270 days from the issue date (i.e., 11 June 2019), and the annual interest rate was 3.70%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 21 September 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB2,483,000 in relation to the issuance, the total net proceeds were approximately RMB2,997,517,000. The bonds would mature 180 days from the issue date (i.e., 20 March 2019), and the annual interest rate was 3.46%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 2 November 2018, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB1,573,000 in relation to the issuance, the total net proceeds were approximately RMB1,998,427,000. The bonds would mature 180 days from the issue date (i.e., 2 May 2019), and the annual interest rate was 3.48%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 26 November 2018, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB3,300,000,000. The corporate bonds will expire on 26 November 2021, for a period of three years commencing from the issue date of 26 November 2018. The annual interest rate of the corporate bonds is fixed at 3.99%. Interest is paid on an annual basis. As at 31 December 2019, the corporate bonds were classified as non-current liabilities.

33. Interest-bearing bank and other borrowings (continued)

Note: (continued)

On 20 February 2019, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,651,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,349,000. The bonds would mature 270 days from the issue date (i.e., 11 November 2019), and the annual interest rate was 3.07%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 1 March 2019, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB4,604,000 in relation to the issuance, the total net proceeds were approximately RMB3,995,396,000. The bonds would mature 270 days from the issue date (i.e., 26 November 2019), and the annual interest rate was 3.07%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 8 March 2019, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,651,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,349,000. The bonds would mature 270 days from the issue date (i.e., 3 December 2019), and the annual interest rate was 3.18%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 15 March 2019, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB3,250,000 in relation to the issuance, the total net proceeds were approximately RMB3,996,750,000. The bonds would mature 180 days from the issue date (i.e., 11 September 2019), and the annual interest rate was 3.20%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 3 April 2019, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,639,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,361,000. The bonds would mature 270 days from the issue date (i.e., 29 December 2019), and the annual interest rate was 3.16%. As at 31 December 2019, the bonds matured and were repaid in 2019.

On 15 April 2019, a subsidiary of the Group issued 5,000,000 units of bonds at a total par value of RMB500,000,000. The total net proceeds were approximately RMB500,000,000. The bonds will mature 270 days from the issue date (i.e., 12 January 2020), and the annual interest rate was 3.35%. As at 31 December 2019, the corporate bonds were classified as current liabilities.

On 24 April 2019, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,654,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,346,000. The bonds will mature 270 days from the issue date (i.e., 19 January 2020), and the annual interest rate was 3.39%. As at 31 December 2019, the corporate bonds were classified as current liabilities.

On 23 May 2019, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB2,456,000 in relation to the issuance, the total net proceeds were approximately RMB1,997,544,000. The bonds will mature 270 days from the issue date (i.e., 17 February 2020), and the annual interest rate was 3.35%. As at 31 December 2019, the corporate bonds were classified as current liabilities.

On 28 May 2019, a subsidiary of the Group issued 10,000,000 units of bonds at a total par value of RMB1,000,000,000. The total net proceeds were approximately RMB1,000,000,000. The bonds would mature 110 days from the issue date (i.e., 15 September 2019), and the annual interest rate was 3.40%. As at 31 December 2019, the bonds matured and were repaid in 2019.

33. Interest-bearing bank and other borrowings (continued)

Note: (continued)

On 10 June 2019, the Company issued 25,000,000 units of bonds at a total par value of RMB2,500,000,000. After deduction of the expenses of approximately RMB3,058,000 in relation to the issuance, the total net proceeds were approximately RMB2,496,942,000. The bonds will mature 270 days from the issue date (i.e., 6 March 2020), and the annual interest rate was 3.39%. As at 31 December 2019, the corporate bonds were classified as current liabilities.

On 5 September 2019, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB4,000,000,000. After deduction of the expenses of approximately RMB3,768,000 in relation to the issuance, the total net proceeds were approximately RMB3,996,232,000. The corporate bonds will expire on 5 September 2022, for a period of three years commencing from the issue date of 5 September 2019. The annual interest rate of the corporate bonds is fixed at 3.53%. Interest is paid on an annual basis. As at 31 December 2019, the corporate bonds were classified as non-current liabilities. As at the report date, the company has used a total of RMB3,996,232,000 per the purposes mentioned above.

On 21 October 2019, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB4,787,000 in relation to the issuance, the total net proceeds were approximately RMB3,995,213,000. The bonds will mature 270 days from the issue date (i.e., 17 July 2020), and the annual interest rate was 3.18%. As at 31 December 2019, the corporate bonds were classified as current liabilities.

On 22 November 2019, the Company issued 15,000,000 units of bonds at a total par value of RMB1,500,000,000. After deduction of the expenses of approximately RMB336,000 in relation to the issuance, the total net proceeds were approximately RMB1,499,664,000. The bonds would mature 39 days from the issue date (i.e., 31 December 2019), and the annual interest rate was 2.88%. As at 31 December 2019, the bonds matured and were repaid in 2019.

All proceeds from the issuance of the above bonds are used to supplement the group's working capital and repaying bank borrowings and debentures.

At the end of respective reporting period, borrowings were repayable as follows:

	Borrowings from banks or other financial institutions		**Bonds**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**29,287,983**	32,095,244	**13,188,732**	17,989,974
Between 1 and 2 years	**460,706**	176,600	**3,915,825**	997,252
Between 2 and 5 years	**–**	480,710	**3,996,319**	3,296,605
	29,748,689	32,752,554	**21,100,876**	22,283,831

33. Interest-bearing bank and other borrowings (continued)

All of the Group's borrowings from banks or other financial institutions are at floating rates as follows:

	2019	2018
Weighted average effective interest rate (per annum)	4.25%	4.39%

Interest rates of borrowings from banks or other financial institution are reset periodically according to Hong Kong Interbank Offered Rate ("HIBOR"), London Interbank Offered Rate ("LIBOR"), or the benchmark rates announced by the People's Bank of China ("PBOC").

As at 31 December 2019, secured bank borrowings amounting to RMB385,200,000 were guaranteed by third parties (31 December 2018: RMB106,340,000). The collateral for the rest of the Group's secured bank borrowings is as follows:

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents (Note 32)	2,703	6,443
Property, plant and equipment (Note 18)	83,139	90,333
Investment properties (Note 17)	25	29
Prepaid land lease payments (Note 16)	62,140	85,441
Bills receivable (Note 29)	275,574	386,318
Trade receivable (Note 29)	691,263	510,643
	1,114,844	1,079,207

At the end of respective reporting period, the fair value of the current borrowings approximates to their carrying amount. The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Borrowings from banks and other financial institutions	460,706	657,310	514,204	761,440
Bonds	7,912,144	4,293,857	7,912,144	4,293,857

The fair values of the current borrowings equal to their carrying amounts, as the impact of discounting is not significant. The fair values are based on discounted cash flows using a rate based on the borrowing rate of 4.25% (2018: 4.39%) and are within level 2 of the fair value hierarchy.

34. Trade and bills payables

	2019 RMB'000	2018 RMB'000
Trade payables	**71,012,123**	64,485,007
Bills payable	**29,321,645**	19,197,920
	100,333,768	83,682,927

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The fair value of trade payables approximates to their carrying amount.

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

	2019 RMB'000	2018 RMB'000
Below 3 months	**73,248,556**	56,910,303
Between 3 and 6 months	**18,772,174**	17,747,603
Between 6 months and 1 year	**5,362,146**	5,237,674
Between 1 and 2 years	**1,666,546**	2,737,984
Over 2 years	**1,284,346**	1,049,363
	100,333,768	83,682,927

The Group's trade payables are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	**99,728,344**	83,228,766
USD	**600,015**	453,486
EUR	**4,885**	675
JPY	**499**	–
CHF	**25**	–
	100,333,768	83,682,927

The Group has accounts payable financing program with certain banks whereby the banks repaid accounts payable on behalf of the Group with an equivalent sum drawn as borrowings. Such drawdown of borrowings is a non-cash transaction while repayment of the borrowings in cash is accounted for as financing cash outflows.

During the year ended 31 December 2019, accounts payable of RMB2,244,563,000 (2018: RMB1,943,944,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2019, the balance of bank borrowings related to this program was RMB186,362,000 (2018: RMB398,646,000).

35. Contract liabilities

	2019 RMB'000	2018 RMB'000
Non-current		
– Amounts received in advance of delivery of products and services	**31,891**	15,409
– Loyalty program	**27,780**	24,018
Current		
– Amounts received in advance of delivery of products and services	**5,127,061**	6,101,607
	5,186,732	6,141,034

36. Accruals and other payables

	2019 RMB'000	2018 RMB'000
Accrual of operating expenses	**2,435,531**	2,003,143
Collection of trade receivable on behalf of banks under factoring programs (Note 29)	**7,415,018**	3,567,177
Collection of trade receivable on behalf of related parties under factoring programs (Note 29, Note 46)	**1,171,691**	465,611
Salary and welfare payable	**2,410,200**	1,738,889
Other deposits	**8,418,976**	6,282,423
Taxes payable other than income tax	**951,028**	833,094
Interest payable due to unrelated parties	**535,201**	725,668
Interest payable due to related parties (Note 46)	**23,526**	8,713
Other payables due to related parties (Note 46)	**80,246**	428,200
Payables arising from acquisition of subsidiaries and contingent consideration	**435,630**	198,018
Payables arising from acquisition of non-controlling interests	**236,569**	217,866
Collection on behalf of asset-backed securities	**376,884**	168,554
Continuing involvement liabilities (Note 3 (3)(iii))	**–**	40,800
Others	**3,110,652**	2,112,476
	27,601,152	18,790,632

The fair value of financial liabilities included in accruals and other payables approximates to their carrying amount.

37. Post-employment benefit obligations

The table below outlines where the Group's post-employment amounts and activities are included in the financial statements:

	2019 RMB'000	2018 RMB'000
Obligations for post-employment benefits in the consolidated statement of financial position	**399,003**	415,461

	2019 RMB'000	2018 RMB'000
Charge for post-employment benefits in the consolidated statement of profit or loss	**18,469**	59,188
Remeasurement losses recognised in other comprehensive income (Note 13)	**22,835**	18,447
Cumulative remeasurement losses recognised in other comprehensive income	**115,657**	92,822

The amounts recognised in the consolidated statement of financial position are analysed as follows:

	2019 RMB'000	2018 RMB'000
Present value of funded obligations	**33,032**	18,925
Fair value of plan assets	**(100,105)**	(82,468)
Surplus of funded plans	**(67,073)**	(63,543)
Present value of unfunded post-employment benefit obligations	**466,076**	479,004
Liability in the consolidated statement of financial position	**399,003**	415,461

37. Post-employment benefit obligations (continued)

The movements in the defined benefit liability during the period were as follows:

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2018	466,467	(56,572)	409,895
Current service cost	48,271	–	48,271
Past service cost	(2,328)	–	(2,328)
Interest expense (Note 12)	15,666	(2,421)	13,245
	61,609	(2,421)	59,188
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	916	916
– Losses from change in financial assumptions	17,531	–	17,531
	17,531	916	18,447
Contributions:			
– Employers	–	(25,371)	(25,371)
Payments:			
– Benefit payments	(47,678)	980	(46,698)
At 31 December 2018	497,929	(82,468)	415,461

37. Post-employment benefit obligations (continued)

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2019	497,929	(82,468)	415,461
Current service cost	5,741	–	5,741
Past service cost	(460)	–	(460)
Interest expense (Note 12)	16,268	(3,080)	13,188
	21,549	(3,080)	18,469
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	(3,464)	(3,464)
– Losses from change in financial assumptions	26,299	–	26,299
	26,299	(3,464)	22,835
Contributions:			
– Employers	–	(12,622)	(12,622)
Payments:			
– Benefit payments	(46,669)	1,529	(45,140)
At 31 December 2019	499,108	(100,105)	399,003

The significant actuarial assumptions are as follows:

	2019	2018
Discount rate	3.25%	3.50%
Pension growth rate	5.00%	5.00%

Mortality: Average life expectancy of residents in Mainland China

37. Post-employment benefit obligations (continued)

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 2.47%	Increase by 2.60%
Pension growth rate	0.50%	Increase by 0.71%	Decrease by 0.65%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Expected maturity analysis of undiscounted post-employments benefits:

At 31 December 2019	Less than 1 year RMB'000	Between 1 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Post-employment benefits	45,421	144,060	655,095	844,576

38. Other non-current liabilities

	2019 RMB'000	2018 RMB'000
Medical reserve funds		
– general (i)	520,562	505,435
– for H1N1 vaccines	68,407	68,407
Government grants for construction of logistics centres (ii)	84,194	89,069
Government grants for product development	200	600
Other government grants	289,250	261,176
Finance lease payables	–	67,934
Continuing involvement liabilities (Note 3 (3)(iii))	39,000	–
Payables for acquisition of non-controlling interests	117,898	20,400
Payables for acquisition of subsidiaries	322,027	102,194
Others	54,715	34,753
	1,496,253	1,149,968

(i) Certain medical reserve funds were received by CNPGC from the PRC government for the State reserve requirements of medical products (including medicines) for serious disasters, epidemics and other emergencies. In accordance with a responsibility letter dated 4 January 2006 signed between CNPGC and the Company, CNPGC has re-allocated the funds in relation to medicines to the Group. The Group received general medical reserve funds of RMB15,311,000 during the year ended 31 December 2019 from CNPGC.

The Group will have to sell pharmaceutical products to specific customers at cost when there are any serious disasters, epidemic and other emergencies, and the relevant trade receivables from certain of these customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. RMB184,000 was written off with the government's approval due to the expiry of relevant medicines during the year ended 31 December 2019 (2018: RMB28,000,000). The Group is required to maintain certain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised only for the use as mentioned above.

(ii) Certain of the Group's subsidiaries received funds from local governments as subsidies for construction of logistics centres. As at 31 December 2019, the directors expected that the construction will not be completed within one year and therefore, the balance was recorded as other non-current liability.

39. Share capital

	Number of shares	Domestic shares with par value of RMB1 per share	H shares with par value of RMB1 per share	Total
	'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	2,767,095	1,574,284	1,192,811	2,767,095
Issue of shares	204,561	204,561	–	204,561
At 31 December 2018 and 31 December 2019	2,971,656	1,778,845	1,192,811	2,971,656

40. Reserves

	Note	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of equity investments designated at fair value through other comprehensive income RMB'000	Other reserves Note (c) RMB'000	Retained earnings Note (b) RMB'000	Total RMB'000
At 1 January 2018		18,077,173	879,700	16,590	(1,208,798)	17,962,724	35,727,389
Profit for the year		–	–	–	–	5,835,842	5,835,842
Issue of ordinary shares		3,145,929	–	–	(3,350,490)	–	(204,561)
Revaluation of equity investments designated at fair value through other comprehensive income							
– gross		–	–	(6,031)	–	–	(6,031)
– tax		–	–	1,508	–	–	1,508
Remeasurement on post-employment benefit obligations							
– gross		–	–	–	(17,220)	–	(17,220)
– tax		–	–	–	3,546	–	3,546
Exchange differences on translation of foreign operations		–	–	–	(7,058)	–	(7,058)
Share of other comprehensive income of associates		–	–	–	(600)	–	(600)
Appropriation to statutory reserves	(a)	–	191,386	–	–	(191,386)	–
Dividend on shares released from the share incentive scheme		–	–	–	–	214	214
Dividend declared		–	–	–	–	(1,577,244)	(1,577,244)
Effects of transactions with non-controlling interests		–	–	–	307,797	–	307,797
Equity-settled share incentive scheme		–	–	–	(4,695)	–	(4,695)
Share of changes in equity other than comprehensive income and distributions received from associates		–	–	–	46,409	–	46,409
Other changes of an investment in an associate		–	–	–	(103,356)	–	(103,356)
Others		–	–	–	(4,891)	(11,561)	(16,452)
At 31 December 2018		21,223,102	1,071,086	12,067	(4,339,356)	22,018,589	39,985,488

40. Reserves (continued)

	Notes	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of equity investments designated at fair value through other comprehensive income RMB'000	Other reserves Note (c) RMB'000	Retained earnings Note (b) RMB'000	Total RMB'000
At 1 January 2019		21,223,102	1,071,086	12,067	(4,339,356)	22,018,589	39,985,488
Profit for the year		–	–	–	–	6,252,537	6,252,537
Changes in fair value of equity investments at fair value through other comprehensive income							
– gross		–	–	4,776	–	–	4,776
– tax		–	–	(1,194)	–	–	(1,194)
Remeasurement on post-employment benefit obligations							
– gross		–	–	–	(15,434)	–	(15,434)
– tax		–	–	–	2,992	–	2,992
Exchange differences on translation of foreign operations		–	–	–	(3,959)	–	(3,959)
Share of other comprehensive income of associates		–	–	–	(703)	–	(703)
Appropriation to statutory reserves	(a)	–	204,302	–	–	(204,302)	–
Dividend on shares released from the share incentive scheme		–	–	–	–	1,194	1,194
Dividend declared		–	–	–	–	(1,753,277)	(1,753,277)
Effects of transactions with non-controlling interests	44	–	–	–	(113,349)	–	(113,349)
Equity-settled share incentive scheme		–	–	–	(10,396)	–	(10,396)
Share of changes in equity other than comprehensive income and distributions received from associates		–	–	–	68,350	–	68,350
Others		–	–	–	95,763	(2,086)	93,677
At 31 December 2019		21,223,102	1,275,388	15,649	(4,316,092)	26,312,655	44,510,702

40. Reserves (continued)

(a) PRC laws and regulations require companies registered in the PRC to maintain certain statutory reserves, which are to be appropriated from the retained earnings (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before distributing retained earnings to their shareholders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of the net profits to statutory surplus reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to a discretionary surplus reserve based on a resolution of the board of directors.

(b) Retained earnings as at 31 December 2019 included the proposed final dividend of RMB1,872,394,000 (2018: RMB1,753,277,000).

(c) Other reserves mainly represent reserves for transactions with non-controlling interests, remeasurement on post-employment benefit obligations and equity-settled share incentive scheme.

41. Notes to the consolidated statement of cash flows

(a) Cash generated from operations

	2019 RMB'000	2018 RMB'000
Profit before income tax	**13,759,810**	12,207,940
Adjustments for:		
– Share of profits and losses of associates (Note 21)	**(876,381)**	(833,203)
– Share of profits and losses of joint ventures	**(10,693)**	(9,966)
– Asset impairment	**605,652**	410,037
– Depreciation of property, plant and equipment and investment properties	**1,354,488**	1,091,221
– Amortisation of intangible assets (Note 10)	**458,396**	260,107
– Depreciation of right-of-use assets/amortisation of prepaid land lease payments (Note 10)	**1,301,192**	43,351
– Gain on disposal of investment properties, property, plant and equipment and intangible assets (Note 9)	**(8,700)**	(24,271)
– Gain on disposal of right-of-use assets (Note 9)	**3,890**	8,520
– Write-back of certain liabilities (Note 9)	**(40,823)**	(45,614)
– Loss on disposal of financial assets measured at amortised cost	**1,950,177**	1,328,832
– Negative goodwill	**–**	(524)
– Gain on disposal of financial assets at fair value through profit or loss (Note 9)	**(6,297)**	–
– Finance cost	**3,346,130**	2,739,127
– Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiary (Note 9&43)	**(29,790)**	(433)
– Loss on disposal of an investment accounted for the equity method (Note 9)	**(40,384)**	–
– Fair value gains on financial assets at fair value through profit or loss (Note 9)	**(9,677)**	(86,600)
– Dividend from financial assets at fair value through profit or loss (Note 9)	**(1,511)**	(2,464)
– Dividend from financial assets at fair value through other comprehensive income (Note 9)	**(814)**	(850)
– Interest income from asset-backed securities (Note 9)	**(6,040)**	(18,635)
– Equity-settled share incentive scheme expense (Note 49)	**5,753**	19,983
	21,754,378	17,086,558
– Inventories	**(6,120,223)**	(4,925,872)
– Trade and bills receivables	**(12,846,891)**	(24,392,238)
– Contract assets	**(118,515)**	–
– Prepayments, other receivables and other assets	**60,892**	(971,703)
– Trade and bills payables	**17,786,126**	14,735,854
– Contract liabilities	**(1,051,826)**	–
– Accruals, other payables and other liabilities	**2,754,428**	4,888,629
Cash generated from operations	**22,218,369**	6,421,228

41. Notes to the consolidated statement of cash flows (continued)

(b) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,797,641,000 and RMB1,797,641,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(c) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Finance lease payables/ lease liabilities RMB'000	Other liabilities RMB'000	Non-controlling interests RMB'000
At 31 December 2018	55,036,385	67,934	734,381	25,453,941
Effect of adoption of HKFRS 16	–	3,609,404	–	–
At 1 January 2019	55,036,385	3,677,338	734,381	25,453,941
Total comprehensive income attribute to non-controlling interests	–	–	–	4,365,976
Interest expense	–	172,056	3,445,126	–
Capitalised interest expense	–	–	(2,619)	–
Interest paid classified as operating cash flows	–	–	(13,188)	–
Effects of transactions with non-controlling interests	–	–	–	(46,479)
Disposal of subsidiaries	(9,870)	(23,650)	–	(20,169)
Business combination not under common control	1,052,821	67,220	–	731,514
Trade payable financing program	1,605,575	–	–	–
New leases	–	1,797,641	–	–
Lease termination	–	(59,285)	–	–
Changes from financing cash flows	(4,298,860)	(1,341,631)	(5,008,126)	(762,311)
Changes from operating, investing and non-cash activities	(2,536,486)	–	1,403,153	(205,251)
At 31 December 2019	50,849,565	4,289,689	558,727	29,517,221

41. Notes to the consolidated statement of cash flows (continued)

(c) Changes in liabilities arising from financing activities (continued)

	Interest-bearing bank and other borrowings RMB'000	Other liabilities RMB'000	Non-controlling interests RMB'000
At 1 January 2018	37,101,298	633,326	19,645,709
Total comprehensive income attribute to non-controlling interests	–	–	3,564,787
Interest expense	–	4,163,764	–
Capitalised interest expense	–	(6,511)	–
Interest paid classified as operating cash flows	–	(13,245)	–
Effects of transactions with non-controlling interests	–	–	1,995,908
Disposal of subsidiaries	–	–	(1,157)
Business combination not under common control	149,250	–	229,447
Trade payable financing program	1,943,944	–	–
Changes from financing cash flows	14,282,913	(4,052,378)	(5,912)
Changes from operating, investing and non-cash activities	1,558,980	9,425	25,159
At 31 December 2018	55,036,385	734,381	25,453,941

(d) Total cash outflow for leases

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

	2019 RMB'000
Within operating activities	**475,449**
Within investing activities	**181,951**
Within financing activities	**1,341,631**
	1,999,031

42. Commitments

(a) Capital commitments

Capital expenditures at the end of reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	171,208	102,033

(b) Operating lease commitments as at 31 December 2018

(i) The Group as lessee:

The Group leases various land and buildings under non-cancellable operating lease agreements.

Certain of the operating leases contain renewal options which allow the Group to renew the existing leases upon expiry at the then market rental for a specified number of 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 1 year	1,054,590
Later than 1 year but not later than 5 years	1,739,272
Later than 5 years	1,532,678
	4,326,540

(c) The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are RMB32,542,000 due within one year, RMB39,860,000 due in the second to third years, inclusive and RMB12,619,000 due after three years.

43. Disposal of subsidiaries

In November 2019, the Company sold its equity interests in Sinopharm Holding Chuangfu Medical Technology (Shanghai) Co., Ltd. ("Chuangfu") and Sinopharm Holding Chuangke Medical technology (Shanghai) Co., Ltd. ("Chuangke"), former subsidiaries of the Company to an independent third party for a total amount of RMB3,054,000 totally. Accordingly, the Company's equity interests in Chuangfu and Chuangke decreased from 51% to 48.46% and from 55% to 44.5%, respectively. The Company lost its control over Chuangfu and Chuangke on 30 November 2019 (the "Disposal"). Therefore, the investment in Chuangfu and Chuangke and their subsidiaries has not been included in the investments in subsidiaries since 30 November 2019.

The Company had significant influence over Chuangfu and Chuangke after the Disposal and its remaining equity interests in Chuangfu and Chuangke and their subsidiaries were accounted for investments in associates as at 31 December 2019.

During the Reporting Period, the Group disposed of all hold equity interests of below entities, which had no material impact on the consolidated financial statements.

- Sinopharm Holding Shanxi Zhidekang Pharmaceutical Co., Ltd.
- Guorun Yunfeng Rehabilitation Technology Development (Shanghai) Co., Ltd.
- Sinopharm Holding Xiaogan Yixin Pharmaceuticals Co., Ltd.
- Qinhuangdao Guoda drugstore Chain Co., Ltd.

During the Reporting Period, the entities below were deregistered.

- Sinopharm Holding (Hunan) Shaodong Pharmacy Co., Ltd.
- Beijing Golden Elephant Fuxing Technology Co., Ltd.
- Sanhe Lixin Golden Elephant Drugstore Co., Ltd.
- Sinopharm Holdings Dalian Medical Device Co., Ltd.
- Sinopharm Holding Professional Drugstore Tieling Chain Co., Ltd.
- Sinopharm Holding Anjieli (Dalian) Medical Supplies Co., Ltd.

43. Disposal of subsidiaries (continued)

Details of the net assets disposed of are as follows:

	At date of disposal RMB'000
Net assets disposed of:	
Cash and cash equivalents	18,036
Trade and bills receivables	121,182
Prepayments, other receivables and other assets	110,003
Inventories	23,165
Property, plant and equipment	59,842
Right-of-use assets	23,670
Intangible assets	748
Deferred tax assets	740
Interest-bearing bank and other borrowings	(9,870)
Trade and bills payables	(152,565)
Contract liabilities	(4,806)
Accruals and other payables	(92,071)
Lease liabilities	(23,650)
Other non-current liabilities	(15,524)
Net assets	58,900
Non-controlling interests	(20,169)
Net assets attributable to the Company	38,731
Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiary (Note 9)	29,790
Investments in associates (Note 21)	38,257
Satisfied by:	
Cash	30,264

43. Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	At date of disposal RMB'000
Cash consideration	30,264
Cash and cash equivalents in the subsidiaries disposed of	(18,036)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	12,228

44. Transactions with non-controlling interests

(a) Acquisition of additional interests in subsidiaries

During the period, the Group acquired the following additional equity interests in the subsidiaries from the non-controlling interests:

Subsidiaries	**Equity interests acquired** %	**Cash consideration** RMB'000
Sinopharm Holding Fuzhou Co., Ltd.	30.00%	208,254
Tumxuk Haikang Drugs Co., Ltd.	31.60%	5,408
Sinopharm Holding Jinhua Co., Ltd.	10.00%	4,500
China National Medical Device (Tianjin) Co., Ltd.	25.00%	3,478
Sinopharm Holding Hunan Weian Drugstore Chains Co., Ltd.	20.00%	1,120
Sinopharm Holding (Hunan) Shaoyang Pharmaceuticals Supply Chain Co., Ltd.	15.00%	750
Sinopharm Holding (Hunan) Huaihua Pharmaceuticals Supply Chain Co., Ltd.	15.00%	750
		224,260

The effect of changes in the equity interests of these subsidiaries on the total equity attributable to owners of the parent during the period is summarised as follows:

	Effect on the total equity RMB'000
Carrying amount of non-controlling interests acquired	109,745
Consideration payable to non-controlling interests	224,260
Excess of consideration paid over the carrying amount acquired	114,515

44. Transactions with non-controlling interests (continued)

(b) Disposal of interests in subsidiaries without loss of control

During the reporting period, National Medicines cancelled its repurchased shares hold by the Company. The shareholding of the non-controlling interests in National Medicines increased by 0.57% and the carrying amount increased by RMB44,268,000. The Group recognised a decrease in equity attributable to owners of the parent of RMB44,268,000.

During the reporting period, China National Pharmaceutical Group Shanxi Co., Ltd. disposed of its interests in Sinopharm Holding Guorun Medical Supply Chain Service (Shanxi) Co., Ltd. to a non-controlling shareholder for a consideration of RMB507,000. The shareholding of the non-controlling interests in Sinopharm Holding Guorun Medical Supply Chain Service (Shanxi) Co., Ltd. increased by 10% and the carrying amount increased by RMB622,000. The Group recognised a decrease in equity attributable to owners of the parent of RMB115,000.

During the reporting period, China National Medical Device (Foshan) Co., Ltd. obtained a capital injection from a non-controlling shareholder amounting to RMB7,530,000. The shareholding of the non-controlling interests in China National Medical Device (Foshan) Co., Ltd. increased by 10% and the carrying amount increased by RMB7,097,000. The Group recognised an increase in equity attributable to owners of the parent of RMB433,000.

During the reporting period, Sinopharm Holding Fujian Co., Ltd. obtained a capital injection from a non-controlling shareholder amounting to RMB56,397,000. The shareholding ratio of the non-controlling interests in Sinopharm Holding Fujian Co., Ltd. was not changed but the carrying amount increased by RMB11,279,000. The Group recognised an increase in equity attributable to owners of the parent of RMB45,117,000.

(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the twelve months ended 31 December 2019

	Effect on the total equity RMB'000
Changes in equity attributable to owners of the parent arising from:	
– Acquisition of additional interests in subsidiaries	114,515
– Disposal of interests in subsidiaries without loss of control	(1,166)
Net effect for transactions with non-controlling interests on equity attributable to owners of the parent	113,349

45. Business combinations not under common control

Acquisitions during the year are as follows:

The Group acquired equity interests from third parties in certain subsidiaries which are mainly engaged in the distribution of medicines and pharmaceutical products and operations of pharmaceutical chain stores in order to extend the market share of the Group. The subsidiaries acquired by the Group during the year are as follows:

Subsidiaries acquired from third parties	Month of acquisition	Acquired interests
Sinopharm Holding Medical Inspection (TianJin) Co., Ltd.	January, 2019	70%
Sinopharm Holdings (Weihai) Weigao Pharmaceutical Co., Ltd.	January, 2019	51%
Binzhou Sinopharm Anxin Health Technology Co., Ltd.	January, 2019	75%
Qingdao Sinopharm Anxin Green Park Health Technology Co., Ltd.	January, 2019	70%
Rizhao Sinopharm Anxin Health Technology Co., Ltd.	January, 2019	75%
Weifang Sinopharm Anxin Health Medicine Medical Device Chain Co., Ltd.	January, 2019	75%
Zibo Sinopharm Anxin Health Technology Co., Ltd.	January, 2019	75%
Sinopharm Instrument (Hainan) Co., Ltd.	January, 2019	60%
Sinopharm Instrument (Shandong) Orthopaedics Technology Co., Ltd.	January, 2019	60%
Sinopharm Instrument Lian Qi (Beijing) Medical Devices Co., Ltd.	January, 2019	60%
Sinopharm Lianrui Xinxiang (Beijing) Medical Devices Co., Ltd.	January, 2019	60%
Sinopharm Instrument (Guangdong) Medical Technology Co., Ltd.	January, 2019	60%
Hunan Sinopharm Holding Medical Biotechnology Co., Ltd.	February, 2019	70%
Sinopharm Holding Qiqihaer Co., Ltd.	February, 2019	70%
Kashi Sanshi Drugs Retail Chain Co., Ltd.	March, 2019	60%
Sinopharm Holding Jiaxing Co., Ltd.	April, 2019	60%
Sinopharm Holding Jiangyin Huahong Pharmaceutical Co., Ltd.	April, 2019	51%
Sinopharm Holding Anhui Pharmaceutical Co., Ltd.	May, 2019	100%
Chengdu Yuanhe Huasheng Technology Co., Ltd.	May, 2019	55%
Wenzhou Lucheng District Wuma Dr. Yao Clinic Co., Ltd.	May, 2019	60%
Sinopharm Huixinqingyuan (Beijing) technology development Co., Ltd.	May, 2019	70%
Sinopharm Holdings Liaoning Medical Examination Co., Ltd.	May, 2019	65%
Sinopharm Holdings Anhui Huaning Pharmaceutical Co., Ltd.	July, 2019	65%
Sinopharm Holdings Changsha High-tech Pharmaceutical Co., Ltd.	July, 2019	51%
Sinopharm Holdings Accord (Guangzhou) Pharmaceutical Co., Ltd.	July, 2019	70%
Sinopharm Holdings Guizhou Yitong Pharmaceutical Co., Ltd.	July, 2019	70%
Sinopharm Holdings Huangshi Guoda Shizhen Pharmacy Co., Ltd.	July, 2019	100%
Shanghai International Pharmaceutical Trading Co., Ltd.	August, 2019	60%
Sinopharm Dongqi Medical Technology (Shandong) Co., Ltd.	August, 2019	60%
Sinopharm Equipment (Shandong) Biotechnology Co., Ltd.	August, 2019	60%
Shandong Runquan Cleaning Service Co., Ltd.	September, 2019	60%
Sinopharm Holdings Ningguo Co., Ltd.	September, 2019	60%
Guoda Drug Stores (Chaoyang) Ren'ai Pharmacy Co., Ltd.	October, 2019	51%
Handan Sinopharm Lerentang Pharmacy Chain Co., Ltd.	November, 2019	51%
Guoda Drug Stores (Pu'er) Chi Mao Co., Ltd.	November, 2019	60%

45. Business combinations (continued)

Businesses acquired from the following companies	**Month of acquisition**
Inner Mongolia Tongren Pharmacy Chain Co., Ltd.	January, 2019
Chaoyang Yongxingtang Pharmacy Chain Co., Ltd.	July, 2019

The effect of the above acquisitions is summarised as follows:

	RMB'000
– Contingent consideration (i)	888,164
– Cash paid	1,613,731
Total purchase consideration	2,501,895

45. Business combinations (continued)

The details of the assets and liabilities acquired and cash flows relating to these acquisitions are summarised as follows:

	Fair value at acquisition date RMB'000
Cash and cash equivalents	673,806
Financial assets at fair value through other comprehensive income	293
Investment properties (Note 17)	89,948
Property, plant and equipment (Note 18)	346,329
Intangible assets (Note 19)	
– Sales network	987,660
– Others	41,616
Right-of-use assets (Note 16)	73,345
Deferred tax assets (Note 26)	19,258
Inventories	1,116,940
Other non-current assets	7,682
Trade and other receivables	4,010,480
Trade and other payables	(3,626,329)
Lease liabilities (Note 16)	(67,220)
Deferred tax liabilities (Note 26)	(273,430)
Interest-bearing bank and other borrowings	(1,052,821)
Other non-current liabilities	(19,688)
Total Identifiable net assets at fair value	2,327,869
Non-controlling interests (ii)	(731,514)
Goodwill (Note 19)	905,540
Total purchase consideration	2,501,895
Less: Contingent consideration (i)	(888,164)
Cash consideration paid during the period	1,613,731
Cash and cash equivalents in subsidiaries acquired	(673,806)
Cash outflow on acquisition	939,925

The goodwill is attributable to the acquired human resources, economies of scale and synergy expected from combining the operations of the Group and above subsidiaries acquired not being under common control.

45. Business combinations (continued)

(i) Contingent consideration

Based on certain conditions stipulated by the agreements on acquisition, the Group is required to pay contingent consideration based on achievement of profit target of the acquirees. The maximum undiscounted contingent consideration payable is RMB888,164,000.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB888,164,000. As at 31 December 2019, there was no adjustment to the contingent consideration arrangement.

(ii) Non-controlling interests

The Group has elected to recognise non-controlling interests measured at the non-controlling interests in the acquirees' net assets excluding goodwill.

(iii) The revenue and net profit attributable to owners of the parent of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2019 are summarised as follows:

	From acquisition dates to 31 December 2019 RMB'000
Revenue	7,096,143
Net profit	278,706

(iv) The revenue and net profit of these newly acquired subsidiaries from 1 January 2019 to 31 December 2019 are summarised as follows:

	From 1 January 2019 to 31 December 2019 RMB'000
Revenue	11,369,785
Net profit	383,567

46. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The PRC government, indirectly, owns 100% of CNPGC which is the ultimate holding company of the Company. The Group's significant transactions with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its sales of goods, purchases of goods, borrowings, interest fees paid, bills receivable discount, key management compensation and guarantees provided to related parties. The Group's significant balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its trade receivables, prepayments and other receivables, trade payables and other payables, borrowings, other non-current liabilities, and cash and cash equivalents.

Beside other PRC government-related entities, the Company's directors and the Group's management consider the following entities are principal related parties of the Group with which the Group had transactions during the year.

Name of related party	Nature of relationship
China National Pharmaceutical Group Co., Ltd.	The ultimate holding company of the Company
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	Controlled by CNPGC
Xinxiang Central Hospital	Controlled by CNPGC
Chengdu Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Foshan Winteam Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Finance Co., Ltd.	Controlled by CNPGC
Lanzhou Institute of Bio-products Co., Ltd.	Controlled by CNPGC
Lanzhou Biotechnology Development Co., Ltd.	Controlled by CNPGC
Guizhou Tongjitang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Wuhan Blood Products Co., Ltd.	Controlled by CNPGC
Anhui Jingfang Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Industry Co., Ltd.	Controlled by CNPGC
Sino Pharmengin Corporation	Controlled by CNPGC
Sinopharm Group Guizhou Blood Products Co., Ltd.	Controlled by CNPGC
Sinopharm Vanda Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Foreign Trade Corporation	Controlled by CNPGC
Sinopharm Chuankang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Shanghai Blood Products Co., Ltd.	Controlled by CNPGC
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Huayi Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopac Puxin Commercial Factoring Co., Ltd.	Controlled by CNPGC
China National Corp. of Traditional and Herbal Medicine	Controlled by CNPGC
Shydec Pharmaceutical Marketing Co., Ltd.	Controlled by CNPGC
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	Controlled by CNPGC

46. Significant related party transactions (continued)

Name of related party	Nature of relationship
Sinopharm Medical and Health Industry Co., Ltd.	Controlled by CNPGC
Xinxiang City Second People's Hospital	Controlled by CNPGC
Wuhan Institute of Biological Products Co., Ltd.	Controlled by CNPGC
Xinxiang Maternity and Child Hospital	Controlled by CNPGC
National Medicine Gezhouba (Yichang) Hospital Management Co., Ltd.	Controlled by CNPGC
Pingdingshan Fifth People's Hospital	Controlled by CNPGC
Chongqing Southwest Aluminum Hospital	Controlled by CNPGC
Beijing Institute of Biological Products Co., Ltd.	Controlled by CNPGC
Shanghai Institute of Bio-products Co., Ltd.	Controlled by CNPGC
China Pharmaceutical Zhongyuan (Henan) Medical Insurance Co., Ltd.	Controlled by CNPGC
Chinese Medicine Hanjiang Hospital	Controlled by CNPGC
Xinxiang Hospital of Traditional Chinese Medicine	Controlled by CNPGC
Beijing Sanoqiang Pharmaceutical Foreign Trade Co., Ltd	Controlled by CNPGC
Jiangyin Tianjiang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Changchun Institute of Biological Products	Controlled by CNPGC
Chengdu Institute of Biological Products	Controlled by CNPGC
Shanghai Institute of Pharmaceutical Industry	Controlled by CNPGC
Yichang Humanwell Pharmaceutical Co., Ltd.	Associate
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	Associate
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	Associate
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	Associate
Shanghai Modern Pharmaceutical Co., Ltd.	Associate
Shenzhen Main Luck Pharmaceutical Co., Ltd.	Associate
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	Associate
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	Associate
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	Associate
Sinopharm Group Anhui Health Industry Co., Ltd.	Associate
Sinopharm Health Online Co., Ltd.	Associate
Shanghai Beiyi Guoda Pharmaceutical Co., Ltd.	Associate
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	Associate
Sinopharm Pharmacy (Shanghai) Co., Ltd	Associate
Sinopharm Holding (China) Finance Leasing Co., Ltd.	Associate
Sichuan Kangdaxin Medical Co., Ltd.	Associate
Sinopharm Group Finance Leasing Co., Ltd	Associate
Sinopharm Group Commercial Factoring Co., Ltd	Associate
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd	Associate
Shanghai Dingqun Enterprise Management Consulting Co., Ltd.	Associate
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	Subsidiary of an associate
China Otsuka Pharmaceutical Co., Ltd.	Associate of CNPGC
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	Associate of CNPGC

46. Significant related party transactions (continued)

Name of related party	Nature of relationship
Foshan Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Wenzhou Geriatric Hospital Limited Company	Subsidiary of Fosun Pharmaceutical
Jinzhou Aohong Pharmaceuticals Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	Subsidiary of Fosun Pharmaceutical
Chongqing Yaoyou Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Tibet Yaopharma Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Hunan Dongting Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Suzhou Erye Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Sichuan Hexin Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Chongqing Haisiman Pharmaceuticals Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Shenzhen Hang Seng Hospital	Subsidiary of Fosun Pharmaceutical
Hebei Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Foshan City Chancheng District Central Hospital Ltd.	Subsidiary of Fosun Pharmaceutical
Anhui Jimin Tumor Hospital	Subsidiary of Fosun Pharmaceutical
Jiangxi Erye Pharmaceutical Marketing Co., Ltd	Subsidiary of Fosun Pharmaceutical
Shanghai Zhaohui Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jinzhou Aohong Medicine Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Chengdu Lisit Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Shenyang Hongqi Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jiangsu Fosun Pharmaceutical Sales Co., Ltd.	Subsidiary of Fosun Pharmaceutical

46. Significant related party transactions (continued)

(a) Significant transactions with related parties except for other PRC government-related entities

	2019 RMB'000	2018 RMB'000
Sales of goods (i)		
Ultimate holding company	9	–
Associates	737,526	528,558
Companies controlled by CNPGC	1,158,503	910,845
Associates of CNPGC	6,842	117
Subsidiary of Fosun Pharmaceutical	242,846	174,623
Purchases of goods (ii)		
Associates	2,842,363	2,682,685
Companies controlled by CNPGC	3,745,903	3,227,339
Associates of CNPGC	1,431,042	1,220,501
Subsidiary of Fosun Pharmaceutical	2,974,186	2,193,561
Borrowings (iii)		
Associates	–	23,479
Companies controlled by CNPGC	1,427,944	1,950,832
Interest fee paid for other financial services (iv)		
Ultimate holding company	1,294	1,294
Associates	3,667	–
Companies controlled by CNPGC	147,507	169,753
Bills receivable discount (v)		
Companies controlled by CNPGC	2,699,451	3,153,842
Trade receivable factoring (vi)		
Associates	1,117,112	2,242,747
Companies controlled by CNPGC	3,383,822	1,480,451

46. Significant related party transactions (continued)

(a) Significant transactions with related parties except for other PRC government-related entities (continued)

(i) Significant sales of goods to related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Sales of goods		
Xinxiang Central Hospital	401,564	311,438
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	323,673	70,115
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	254,810	324,299
Sinopharm Holding (China) Finance Leasing Co., Ltd.	243,627	2,063
Shanghai Beiyi Guoda pharmaceutical Co., Ltd.	115,348	99,175
Foshan Pharmaceutical Co., Ltd.	111,261	87,134
Xinxiang City Second People's Hospital	91,842	70,486
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	88,800	73,711
Wenzhou Geriatric Hospital Limited Company	51,720	37,097
National Medicine Gezhouba (Yichang) Hospital Management Co., Ltd.	40,657	–
Wuhan Institute of Biological Products Co., Ltd.	36,803	36,049
Xinxiang Maternity and Child Hospital	16,382	12,273
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	4,467	796
Sinopharm Medical and Health Industry Co., Ltd.	130	236,475

46. Significant related party transactions (continued)

(a) Significant transactions with related parties except for other PRC government-related entities (continued)

(ii) Significant purchases of goods from related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Purchases of goods		
Yichang Humanwell Pharmaceutical Co., Ltd.	2,364,348	2,092,835
Fresenius Kabi Huarui Pharmaceutical Co., Ltd	1,220,840	1,005,039
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	1,060,914	793,738
Lanzhou Biotechnology Development Co., Ltd.	842,302	77,241
Chengdu Rongsheng Pharmaceutical Co., Ltd.	600,220	573,469
Chongqing Yaoyou Pharmaceutical Co., Ltd.	554,657	524,591
Jinzhou Aohong Pharmaceuticals Co., Ltd.	416,117	316,472
Shanghai Modern Pharmaceutical Co., Ltd.	327,565	215,910
Shenzhen Main Luck Pharmaceutical Co., Ltd.	231,348	225,318
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	216,696	152,126
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	215,694	206,978
China Otsuka Pharmaceutical Co., Ltd.	209,321	213,888
Sichuan Hexin Pharmaceutical Co., Ltd.	201,812	130,944
Sinopharm Wuhan Blood Products Co., Ltd.	200,319	85,863
Tibet Yaopharma Pharmaceutical Co., Ltd.	181,263	73,056
Guizhou Tongjitang Pharmaceutical Co., Ltd.	177,812	159,102
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	161,373	123,188
Foshan Winteam Pharmaceutical Co., Ltd.	160,169	160,852
Hunan Dongting Pharmaceutical Co., Ltd.	150,984	104,994
China National Pharmaceutical Industry Co., Ltd.	133,953	120,056
Suzhou Erye Pharmaceutical Co., Ltd.	128,437	130,261
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	102,013	66,385
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	101,038	64,247
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	96,637	62,778
Jiangxi Erye Pharmaceutical Marketing Co., Ltd.	75,685	13,453
Shanghai Zhaohui Pharmaceutical Co., Ltd.	64,039	33,843
Sinopharm Vanda Pharmaceutical Co., Ltd.	62,398	40,557
Sinopharm Chuankang Pharmaceutical Co., Ltd.	55,027	50,867
Sinopharm Group Guizhou Blood Products Co., Ltd.	51,105	18,696
Anhui Jingfang Pharmaceutical Co., Ltd.	46,928	61,351
Sinopharm Shanghai Blood Products Co., Ltd.	34,464	2,979
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	16,968	176,352
China National Pharmaceutical Foreign Trade Corporation	11,758	99,205
Jinzhou Aohong Medicine Co., Ltd.	5,133	312,209
Chongqing Haisiman Pharmaceuticals Co., Ltd.	5,131	1,414
Lanzhou Institute of Bio-products Co., Ltd.	3,040	637,647
Shydec Pharmaceutical Marketing Co., Ltd.	–	64,523

46. Significant related party transactions (continued)

(a) Significant transactions with related parties except for other PRC government-related entities (continued)

(iii) Borrowings from related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Borrowings		
Sinopharm Group Finance Co., Ltd.	**1,427,944**	1,950,832
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**–**	23,479

(iv) Interest fees paid for other financial services to related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Interest fees paid for other financial services		
Sinopharm Group Finance Co., Ltd.	**110,091**	150,147
Sinopac Puxin Commercial Factoring Co., Ltd.	**37,415**	19,606
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**3,022**	–
China National Pharmaceutical Group Co., Ltd.	**1,294**	1,294
Sinopharm Health Online Co., Ltd.	**645**	–

(v) Bills receivable discount to the related party was listed as below:

	2019 RMB'000	2018 RMB'000
Bills receivable discount		
Sinopharm Group Finance Co., Ltd.	**2,699,451**	3,153,842

46. Significant related party transactions (continued)

(a) Significant transactions with related parties except for other PRC government-related entities (continued)

(vi) Trades receivable factoring to the related party were listed as below:

	2019 RMB'000	2018 RMB'000
Trades receivable factoring		
Sinopac Puxin Commercial Factoring Co., Ltd.	**2,100,731**	888,953
Sinopharm Group Finance Co., Ltd.	**1,283,091**	591,498
Sinopac Ronghui (Shanhai) Commercial Factoring Co., Ltd.	**740,880**	196,927
Sinopharm Commercial Factoring Co. Ltd.	**317,055**	30,000
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**59,177**	2,015,820

The above related party transaction was carried out on terms mutually agreed between the parties. In the opinion of the Company's directors and the Group's management, the transaction was conducted in the ordinary course of business of the Group.

The related party transactions included in items (i), (ii), (iv) and (vi) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Key management compensation

	2019 RMB'000	2018 RMB'000
Salaries and other short-term employee benefits	**7,641**	17,702
Share incentive scheme expenses	**–**	817
	7,641	18,519

(c) Guarantees provided to a related party

	2019 RMB'000	2018 RMB'000
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**–**	4,091,282

46. Significant related party transactions (continued)

(d) Significant balances with related parties except for other PRC government-related entities

	2019 RMB'000	2018 RMB'000
Cash in other financial institution (i)		
Company controlled by CNPGC	2,783,078	3,462,436
Trade and bills receivables due from (ii)		
Associates	69,950	316,826
Companies controlled by CNPGC	753,292	877,213
Associates of CNPGC	1,869	398
Subsidiary of Fosun Pharmaceutical	76,713	67,071
Other receivables due from (iii)		
Associates	60,233	50,982
Companies controlled by CNPGC	33,365	137,107
Associates of CNPGC	1,244	177
Subsidiary of Fosun Pharmaceutical	6,112	303
Prepayments to (iv)		
Associates	3,943	4,696
Companies controlled by CNPGC	139,527	124,251
Associates of CNPGC	4,548	1,989
Subsidiary of Fosun Pharmaceutical	54,764	54,488
Trade and bills payables due to (v)		
Associates	749,017	661,413
Companies controlled by CNPGC	1,114,798	807,090
Associates of CNPGC	159,843	138,120
Subsidiary of Fosun Pharmaceutical	650,930	485,703
Other payables due to (vi)		
Ultimate holding company	81,491	39
Associates	794,447	657,641
Companies controlled by CNPGC	398,705	243,313
Subsidiary of Fosun Pharmaceutical	820	1,531
Contract liabilities (vii)		
Associates	464	469
Companies controlled by CNPGC	85,243	77,451
Subsidiary of Fosun Pharmaceutical	2,261	367

46. Significant related party transactions (continued)

(d) Significant balances with related parties except for other PRC government-related entities (continued)

	2019 RMB'000	2018 RMB'000
Borrowings due to (viii)		
Ultimate holding company	–	31,600
Associates	–	19,889
Companies controlled by CNPGC	1,192,510	1,550,832
Other non-current liabilities (ix)		
Ultimate holding company	864,073	753,508
Associates	91,841	113,928
Companies controlled by CNPGC	2,446	2,446

(i) Significant balance of cash in other financial institution with related party was listed as below:

	2019 RMB'000	2018 RMB'000
Cash in other financial institution		
Sinopharm Group Finance Co., Ltd.	2,783,078	3,462,436

46. Significant related party transactions (continued)

(d) Significant balances with related parties except for other PRC government-related entities (continued)

(ii) Significant balances of trade and bills receivables due from related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Trade and bills receivables due from		
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	**278,211**	784,226
Xinxiang Central Hospital	**195,814**	21,733
Xinxiang City Second People's Hospital	**78,966**	10,000
National Medicine Gezhouba (Yichang) Hospital Management Co., Ltd.	**46,717**	–
Wuhan Institute of Biological Products Co., Ltd.	**44,308**	10,618
Foshan Pharmaceutical Co., Ltd.	**42,596**	30,657
Shanghai Beiyi Guoda pharmaceutical Co., Ltd.	**27,194**	–
Chongqing Southwest Aluminum Hospital	**26,565**	–
Sinopac Puxin Commercial Factoring Co., Ltd.	**25,049**	–
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	**21,978**	13,962
Wenzhou Geriatric Hospital Limited Company	**19,484**	25,798
Chinese Medicine Hanjiang Hospital	**14,986**	–
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	**14,211**	23,179
Xinxiang Maternity and Child Hospital	**13,149**	5,765
Pingdingshan Fifth People's Hospital	**10,293**	–
Beijing Institute of Biological Products Co., Ltd.	**8,576**	5,442
Xinxiang Hospital of Traditional Chinese Medicine	**7,001**	5,296
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**–**	226,446
Yichang Humanwell Pharmaceutical Co., Ltd.	**–**	28,274

46. Significant related party transactions (continued)

(d) Significant balances with related parties except for other PRC government-related entities (continued)

(iii) Significant balances of other receivables due from related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Other receivables due from		
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	**45,360**	44,000
China National Pharmaceutical Group Co., Ltd.	**13,959**	–
Sichuan Kangdaxin Medical Co., Ltd.	**10,819**	–
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	**10,000**	98,500
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	**5,432**	39
Sinopharm Group Finance Leasing Co., Ltd	**4,000**	–
Lanzhou Institute of Bio-products Co., Ltd.	**3,001**	158
Beijing Sanoqiang Pharmaceutical Foreign Trade Co., Ltd.	**1,556**	106
China National Pharmaceutical Foreign Trade Co., Ltd.	**1,308**	3,144
Fresenius Kabi Huarui Pharmaceutical Co., Ltd	**1,242**	177
Shanghai Modern Pharmaceutical Co., Ltd.	**1,193**	7,913
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**29**	–
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	**2**	24,015

(iv) Significant balances of prepayments to related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Prepayments to		
Sinopharm Shanghai Blood Products Co., Ltd.	**39,631**	2,979
Foshan Winteam Pharmaceutical Co., Ltd.	**19,761**	25,320
Chongqing Yaoyou Pharmaceutical Co., Ltd.	**15,604**	19,067
Chengdu Rongsheng Pharmaceutical Co., Ltd	**14,408**	42,757
Shanghai Modern Pharmaceutical Co., Ltd.	**14,312**	14,150
Guizhou Tongjitang Pharmaceutical Co., Ltd.	**10,750**	10,718
Jinzhou Aohong Pharmaceuticals Co., Ltd.	**1,693**	23,135

46. Significant related party transactions (continued)

(d) Significant balances with related parties except for other PRC government-related entities (continued)

(v) Significant balances of trade and bills payables due to related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Trade and bills payables due to		
Yichang Humanwell Pharmaceutical Co., Ltd.	**608,667**	488,089
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	**344,018**	227,637
Chengdu Rongsheng Pharmaceutical Co., Ltd.	**203,676**	182,412
Lanzhou Biotechnology Development Co., Ltd.	**172,131**	57,600
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	**138,004**	114,307
Sinopharm Group Finance Co., Ltd.	**128,328**	–
Sinopharm Puxin Commercial Factoring Co., Ltd.	**124,973**	–
Chongqing Yaoyou Pharmaceutical Co., Ltd.	**101,622**	91,600
Sinopharm Wuhan Blood Products Co., Ltd.	**83,853**	38,128
Shenzhen Main Luck Pharmaceutical Co., Ltd.	**79,790**	82,682
Guizhou Tongjitang Pharmaceutical Co., Ltd.	**71,703**	52,007
Tibet Yaopharma Pharmaceutical Co., Ltd.	**64,748**	41,700
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	**57,387**	41,671
Foshan Winteam Pharmaceutical Co., Ltd.	**53,161**	45,254
Jinzhou Aohong Pharmaceuticals Co., Ltd.	**42,544**	48,122
Hunan Dongting Pharmaceutical Co., Ltd.	**37,725**	31,830
Sinopharm Shanghai Blood Products Co., Ltd.	**37,215**	10,298
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	**31,488**	37,769
China National Pharmaceutical Industry Co., Ltd.	**25,603**	19,568
China Otsuka Pharmaceutical Co., Ltd.	**21,767**	22,178
Anhui Jingfang Pharmaceutical Co., Ltd.	**20,516**	22,354
Shanghai Modern Pharmaceutical Co., Ltd.	**18,060**	13,194
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	**17,571**	16,471
Sinopharm Vanda Pharmaceutical Co., Ltd.	**16,013**	12,405
Sichuan Hexin Pharmaceutical Co., Ltd.	**15,337**	9,379
Chengdu Lisit Pharmaceutical Co., Ltd.	**13,496**	–
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	**11,941**	10,250
Suzhou Erye Pharmaceutical Co., Ltd.	**10,501**	11,586
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	**10,441**	12,244
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	**10,081**	9,137
Shenyang Hongqi Pharmaceutical Co., Ltd.	**10,039**	7,988
Sinopharm Chuankang Pharmaceutical Co., Ltd.	**9,747**	10,578
Huayi Pharmaceutical Co., Ltd.	**9,574**	10,071
Jiangyin Tianjiang Pharmaceutical Co., Ltd.	**8,702**	4,689
Jiangsu Fosun Pharmaceutical Sales Co., Ltd.	**7,175**	–
China National Pharmaceutical Foreign Trade Corporation	**5,460**	10,680
Sinopharm Group Guizhou Blood Products Co., Ltd.	**3,964**	16,016
Sino Pharmengin Corporation	**1,147**	16,450
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	**1,124**	43,433
Lanzhou Institute of Bio-products Co., Ltd.	**635**	161,948

46. Significant related party transactions (continued)

(d) Significant balances with related parties except for other PRC government-related entities (continued)

(vi) Significant balances of other payables due to related parties were listed as below:

	2019 RMB'000	2018 RMB'000
Other payables due to		
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd.	**655,102**	–
Sinopharm Group Finance Co., Ltd.	**234,151**	40,569
Sinopac Puxin Commercial Factoring Co., Ltd.	**128,943**	164,452
Sinopharm Group Commercial Factoring Co., Ltd	**128,774**	17,528
China National Pharmaceutical Group Co., Ltd.	**81,491**	–
Sino Pharmengin Corporation	**19,757**	12,280
Shanghai Dingqun Enterprise Management Consulting Co., Ltd.	**10,000**	10,000
Sinopharm Health Online Co., Ltd.	**153**	52,284
Sinopharm Group Anhui Health Industry Co., Ltd.	**–**	333,940
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**–**	243,062

(vii) Significant balance of contract liabilities with related parties was listed as below:

	2019 RMB'000	2018 RMB'000
Contract liabilities		
Changchun Institute of Biological Products	**26,781**	–
Shanghai Institute of Bio-products Co., Ltd.	**16,142**	–
Chengdu Institute of Biological Products	**9,791**	5,672
Wuhan Institute of Biological Products Co., Ltd.	**9,075**	8,394
Lanzhou Institute of Bio-products Co., Ltd.	**6,050**	7,908
Shanghai Institute of Pharmaceutical Industry	**3,105**	25,577

46. Significant related party transactions (continued)

(d) Significant balances with related parties except for other PRC government-related entities (continued)

(viii) Significant balances of borrowings due to related parties was listed as below:

	2019 RMB'000	2018 RMB'000
Borrowings due to		
Sinopharm Group Finance Co., Ltd.	**1,192,510**	1,550,832
China National Pharmaceutical Group Co., Ltd.	**31,600**	31,600
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**–**	19,889

Borrowings from the above related parties bear interest at rates from 3.92% to 4.70% (2018: from 4.00% to 5.43%). The borrowings from China National Pharmaceutical Group Co., Ltd. have repayment terms over 1 year. The borrowings from the other two related parties have repayment terms within 1 year.

(ix) Significant balances of other non-current liabilities with related parties was listed as below:

	2019 RMB'000	2018 RMB'000
Other non-current liabilities		
China National Pharmaceutical Group Co., Ltd.	**864,073**	753,508
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**91,841**	113,928
China National Corp. of Traditional and Herbal Medicine	**2,446**	2,446

47. Principal subsidiaries

As at 31 December 2019, particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
China National Pharmaceutical Group Shanghai Co., Ltd.* (國藥集團上海有限公司)	PRC, 24 July 1988	40,237	100	–	Property management
China National Pharmaceutical Group Chemical Reagent Co., Ltd.* (國藥集團化學試劑有限公司)	PRC, 24 October 2003	450,000	90	10	Distribution of chemical reagents in the PRC
Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd.* (北京國藥天元物業管理有限公司)	PRC, 28 December 1981	36,130	100	–	Property rental in the PRC
Sinopharm Holding Tianjin Co., Ltd.* (國藥控股天津有限公司)	PRC, 12 December 2003	1,300,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shenyang Co., Ltd.* (國藥控股瀋陽有限公司)	PRC, 27 November 2003	800,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents and provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shaanxi Co., Ltd.* (國藥控股陜西有限公司)	PRC, 30 May 2001	250,000	60	–	Distribution of pharmaceutical and healthcare products and logistics services in the PRC
Sinopharm Pharmaceutical Logistics Co., Ltd.* (國藥集團醫藥物流有限公司)	PRC, 18 December 2002	300,000	100	–	Provision of pharmaceutical logistics services in the PRC
China National Medicines Corporation Ltd.* (國藥集團藥業股份有限公司)	PRC, 21 December 1999	754,503	55	–	Distribution of pharmaceutical products and laboratory supplies in the PRC
Shanghai Tongyu Information Technology Co., Ltd.* (上海統御信息科技有限公司)	PRC, 27 December 2005	41,000	100	–	Information technology development and medicine consulting in the PRC
Sinopharm Holding Distribution Center Co., Ltd.* (國藥控股分銷中心有限公司)	PRC, 30 January 2002	2,000,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Henan Co., Ltd.* (國藥控股河南股份有限公司)	PRC, 11 December 2006	680,310	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Fujian Co., Ltd.* (國藥控股福建有限公司)	PRC, 20 January 2010	651,000	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Hong Kong Co., Ltd.* (國藥控股股份香港有限公司)	PRC, 14 August 2009	US$9.5 million	100	–	Investment; distribution of pharmaceutical and healthcare products; medicine chain stores; and provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shandong Co., Ltd.* (國藥控股山東有限公司)	PRC, 12 April 2006	70,000	67	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Group Xinjiang Province New & Special National Pharmaceutical Co., Ltd.* (國藥集團新疆新特藥業有限公司)	PRC, 30 June 2003	780,637	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hubei Co., Ltd.* (國藥控股湖北有限公司)	PRC, 19 March 2001	844,444	82	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.* (國藥集團上海立康醫藥有限公司)	PRC, 27 July 1994	70,000	100	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Medical Instruments Co., Ltd. (國藥控股醫療器械有限公司)	PRC, 27 July 2006	320,000	100	–	Distribution of medical instruments in the PRC
Sinopharm Holding Anhui Co., Ltd.* (國藥控股安徽有限公司)	PRC, 29 December 2008	357,160	87	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Zhejiang Co., Ltd.* (國藥控股浙江有限公司)	PRC, 9 October 1995	200,000	88	–	Distribution of pharmaceutical products
Sinopharm Holding Hunan Co., Ltd.* (國藥控股湖南有限公司)	PRC, 21 June 2001	520,000	97	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Chongqing Co., Ltd.* (國藥控股重慶有限公司)	PRC, 8 May 2010	30,000	67	–	Distribution of pharmaceutical products and chemical reagents
Sinopharm Holding Jiangsu Co., Ltd.* (國藥控股江蘇有限公司)	PRC, 12 October 2001	1,865,342	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Yunnan Co., Ltd.* (國藥控股雲南有限公司)	PRC, 20 November 2000	163,948	90	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
China National Accord Medicines Co., Ltd.* (國藥集團一致藥業股份有限公司)	PRC, 2 August 1986	428,130	56	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Shanxi Co., Ltd.* (國藥控股山西有限公司)	PRC, 17 January 2004	500,000	90	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Inner Mongolia Co., Ltd.* (國藥控股內蒙古有限公司)	PRC, 14 May 2010	300,000	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Group Southwest Medicine Co., Ltd.* (國藥集團西南醫藥有限公司)	PRC, 19 November 1997	63,390	82	3	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Lingyun Biopharmaceutical (Shanghai)Co., Ltd.* (國藥控股淩雲生物醫藥(上海)有限公司)	PRC, 3 February 1992	50,000	55	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Jiangxi Co., Ltd.* (國藥控股江西有限公司)	PRC, 13 October 2009	100,000	67	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Gansu Co., Ltd.* (國藥控股甘肅有限公司)	PRC, 14 January 2010	60,000	70	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Jilin Co., Ltd.* (國藥控股吉林有限公司)	PRC, 9 July 1999	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Ningxia Co., Ltd.* (國藥控股寧夏有限公司)	PRC, 21 November 2008	97,620	73	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Guizhou Co., Ltd.* (國藥控股貴州有限公司)	PRC, 1 April 2010	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Lerentang Pharmaceutical Co., Ltd.* (國藥樂仁堂醫藥有限公司)	PRC, 29 September 2009	175,000	60	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hainan Co., Ltd.* (國藥控股海南有限公司)	PRC, 10 July 2000	50,000	68	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Holding Huzhou Co., Ltd.* (國藥控股湖州有限公司)	PRC, 14 August 1978	30,000	69	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Qinghai Co., Ltd.* (國藥控股青海有限公司)	PRC, 24 January 2003	20,000	70	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC

47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Xingsha Pharmaceutical (Xiamen) Co., Ltd.* (國藥控股星鯊製藥(廈門)有限公司)	PRC, 30 December 1998	360,000	60	–	Medicine manufacture, distribution of chemical, reagents, import and export of goods and technology, business consulting
Sinopharm Holding Donghong Medical (Shanghai) Co., Ltd.* (國藥控股東虹醫藥(上海)有限公司)	PRC, 15 August 1992	12,000	85	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Health Solutions (Shanghai) Co., Ltd.* (國藥控股健康發展(上海)有限公司)	PRC, 19 January 2004	31,500	100	–	Health consultation, medical consulting, market information consulting and investigation and convention and exhibition services
Shanghai Meiluo Medical Co., Ltd.* (上海美羅醫藥有限公司)	PRC, 27 May 2002	60,000	100	–	Distribution of pharmaceutical products, medical equipment and chemical reagents, import and export of goods and technology in the PRC
Sinopharm Holding Wenzhou Co., Ltd.* (國藥控股溫州有限公司)	PRC, 31 March 1995	50,000	58	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shanxi Co., Ltd.* (國藥集團山西有限公司)	PRC, 14 April 2011	1,000,000	80	–	Distribution of pharmaceutical products, laboratory supplies and healthcare products in the PRC
Sinopharm Holding Lingshang Hospital Management Service Co., Ltd.* (國藥控股菱商醫院管理服務(上海)有限公司)	PRC, 5 July 2013	300,370	60	–	Medical equipment and distribution of goods, information technology services in the PRC
Sinopharm Holding Heilongjiang Co., Ltd.* (國藥控股黑龍江有限公司)	PRC, 11 October 2010	99,000	65	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Chongqing Taimin Pharmaceutical Co., Ltd.* (國藥控股重慶泰民醫藥有限公司)	PRC, 17 August 2012	20,000	60	–	Distribution of pharmaceutical products, medical instruments and chemical reagents in the PRC
Sinopharm Bio-pharmaceutical Co., Ltd.* (國藥控股上海生物醫藥有限公司)	PRC, 3 December 2009	20,000	70	–	Distribution of pharmaceutical products, healthcare products, medical instruments and chemical reagents in the PRC
Sichuan Pharmaceutical Group Co., Ltd. of CNPGC* (國藥四川醫藥集團有限公司)	PRC, 2 September 2001	65,744	66	–	Management of medical project investment, consulting and technology training in PRC

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Dalian Hecheng Co., Ltd.* (國藥控股大連和成有限公司)	PRC, 17 January 1994	50,000	80	–	Distribution of pharmaceutical products, Chinese herbal medicine, antibiotics, biological products, chemical reagents and medical device
Sinopharm Holding Hongrun Medical Business Service (Shanghai) Co., Ltd.* (國藥控股虹潤醫藥商務服務(上海)有限公司)	PRC, 22 August 2016	60,000	60	–	Health consultation, medical consulting, distribution of medical equipment, import and export services in the PRC
Sinopharm pharmacy (shanghai) Co., Ltd* (國藥控股藥房(上海)有限公司)	PRC,28 December 2017	1,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
China National Scientific Instruments and Materials Co., Ltd* (中國科學器材有限公司)	PRC,2 March 1982	4,000,000	60	–	Distribution of medical instruments in the PRC
Sinopharm Holding Changsha Co., Ltd.* (國藥控股長沙有限公司)	PRC, 27 April 2015	100,000	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Shanghai Pudong New Area Medicines and Herbs Co., Ltd.* (上海浦東新區醫藥藥材有限公司)	PRC, 11 June 1993	13,896	100	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Medicine Holding Anhuisheng Yiyao Co., Ltd.* (國藥控股安徽省醫藥有限公司)	PRC, 26 June 1990	172,000	100	–	Distribution of pharmaceutical products and laboratory supplies in the PRC
Sinopharm SteriGuard Medical Service Co., Ltd.* (國藥潔諾醫療服務有限公司)	PRC, 20 October 2014	63,291	79	–	Cleaning and sterilisation for medical instruments and devices
Sinopharm Holding Medical Instruments Co., Ltd. * (國藥控股潤達醫療器械發展(上海)有限公司)	PRC, 17 August 2015	85,000	51	–	Distribution of medical instruments in the PRC
Sinopharm Holding GuoDa Drug Store Co., Ltd.* (國藥控股國大藥房有限公司)	PRC, 23 March 2004	1,683,333	–	60	Distribution of pharmaceutical and healthcare products in the PRC

* English translations of names for identification purposes only

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Except for two of subsidiaries which operated in Hong Kong, China, the subsidiaries of the Group all ran their business in Mainland China.

China National Accord Medicines Co., Ltd., China Nationals Medicines Corporation Ltd. and Sinopharm Holding Henan Co., Ltd. are joint stock limited companies. Except for the above mentioned companies, other principal subsidiaries of the Company are limited liability companies.

48. Statement of financial position and movements in reserves of the Company

Statement of financial position of the Company

	2019 RMB'000	2018 RMB'000
Assets		
Non-current assets		
Investment properties	**23,691**	24,689
Property, plant and equipment	**1,965,916**	1,942,640
Intangible assets	**68,844**	211,445
Investments in subsidiaries	**29,369,646**	28,053,992
Investment in a joint venture	**33,545**	22,858
Investments in associates	**2,436,495**	2,170,457
Financial assets at fair value through profit or loss	**593,519**	598,378
Deferred tax assets	**117,282**	81,620
Total non-current assets	**34,608,938**	33,106,079
Current assets		
Inventories	**855,840**	875,826
Trade and bills receivables	**2,589,158**	2,050,913
Prepayments, other receivables and other assets	**24,951,412**	20,861,948
Cash and cash equivalents	**11,018,499**	14,688,607
Total current assets	**39,414,909**	38,477,294
Total assets	**74,023,847**	71,583,373
EQUITY		
Share capital	**2,971,656**	2,971,656
Treasury shares held for share incentive scheme	**(60,212)**	(135,318)
Reserves	**24,275,315**	23,962,449
Total equity	**27,186,759**	26,798,787

48. Statement of financial position and movements in reserves of the Company (continued)

Statement of financial position of the Company (continued)

	2019 RMB'000	2018 RMB'000
Liabilities		
Non-current liabilities		
Interest-bearing bank and other borrowings	7,912,144	4,293,857
Deferred tax liabilities	22,797	23,241
Post-employment benefit obligations	9,536	16,743
Other non-current liabilities	864,195	182,451
Total non-current liabilities	8,808,672	4,516,292
Current liabilities		
Interest-bearing bank and other borrowings	12,493,271	18,889,974
Trade and bills payables	2,645,963	2,748,453
Contract liabilities	3,202	31,408
Accruals and other payables	22,885,880	18,595,983
Dividend payable	100	2,476
Total current liabilities	38,028,416	40,268,294
Total liabilities	46,837,088	44,784,586
Total equity and liabilities	74,023,847	71,583,373

The financial statements were approved by the Board of Directors on 29 March 2020 and were signed on its behalf by

Li Zhiming
Director

Tan Wee Seng
Director

48. Statement of financial position and movements in reserves of the Company (continued)

Movements in reserves of the Company

	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of equity investments designated at fair value through other comprehensive RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2018	18,065,998	881,544	7,404	(4,347)	1,607,504	20,558,103
Profit for the year	–	–	–	–	1,913,855	1,913,855
Issue of ordinary shares	3,145,929	–	–	–	–	3,145,929
Share of other comprehensive income of associates	–	–	–	(1,187)	–	(1,187)
Appropriation to statutory reserves	–	191,386	–	–	(191,386)	–
Equity settled share incentive scheme	–	–	–	(565)	–	(565)
Remeasurement on post-employment benefit obligations:						
– gross	–	–	–	3,307	(1,160)	2,147
– tax	–	–	–	(827)	290	(537)
Dividend on shares released from the share incentive scheme	–	–	–	–	214	214
Dividends declared	–	–	–	–	(1,577,244)	(1,577,244)
Share of changes in equity other than comprehensive income and distributions received from associates	–	–	–	119	–	119
Other changes in an investment in an associate	–	–	–	(87,626)	–	(87,626)
Others	–	–	–	9,241	–	9,241
As at 31 December 2018	21,211,927	1,072,930	7,404	(81,885)	1,752,073	23,962,449
Profit for the year	–	–	–	–	2,043,016	2,043,016
Disposal of subsidiaries	–	(1,177)	–	–	(10,587)	(11,764)
Share of other comprehensive income of associates	–	–	–	(1,009)	–	(1,009)
Appropriation to statutory reserve	–	204,302	–	–	(204,302)	–
Equity settled share incentive scheme	–		–	(3,125)		(3,125)
Remeasurement on post-employment benefit obligations:						
– gross	–	–	–	1,346	(479)	867
– tax	–	–	–	(336)	120	(216)
Dividend on shares released from the share incentive scheme	–	–	–	–	1,194	1,194
Dividends declared	–	–	–	–	(1,753,277)	(1,753,277)
Share of changes in equity other than comprehensive income and distributions received from associates	–	–	–	4,400	–	4,400
Other changes in an investment in an associate	–	–	–	32,780	–	32,780
As at 31 December 2019	21,211,927	1,276,055	7,404	(47,829)	1,827,758	24,275,315

49. Share incentive scheme

The Company operates a share incentive 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 (the "Scheme Participants") include the Company's directors, senior management and mid-level management and other employees of the Group who, in the opinion of the Company's directors, shall be awarded. The Scheme became effective on 18 October 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Pursuant to the Scheme, the Board shall select the Scheme Participants and determine the number of shares to be awarded (the "Restricted Shares"). An independent trustee appointed by the Board (the "Trustee") shall purchase from the market such number of H Shares to be awarded as specified by the Board. In each grant of such Restricted Shares to the Scheme Participants, the exercise price to be funded by each of the Scheme Participants shall be no less than 50% of the grant reference price and no less than the most recent audited net assets value per share of the Company, and the remaining balance will be funded by the Company.

The maximum total number of Restricted Shares to be granted under the Scheme shall not exceed 10% of the total issued share capital of the Company as at the effective date of the Scheme. The number of Restricted Shares to be awarded to a Scheme Participant will be subject to the criteria specified in the rules of the Scheme. The total number of Restricted Shares granted or to be granted to any Scheme Participant shall not exceed 1% of the total issued share capital of the Company as at the effective date of the Scheme.

On 16 November 2016, the Board resolved to approve the initial grant of the Restricted Shares (the "Initial Grant") under the Scheme to the Scheme participants, pursuant to which Restricted Shares of 7.23 million, representing approximately 0.2613% of the issued share capital of the Company as at 16 November 2016, shall be granted to 190 selected Scheme Participants on 16 November 2016 at the grant reference price of HKD35.46 per Restricted Share (the "Grant Reference Price"). The exercise price under the Initial Grant is HKD17.73 per Restricted Share, being 50% of the Grant Reference Price and no less than the most recent audited net assets value per share of the Company. The exercise price shall be funded by the selected Scheme Participants at his/her own cost, and the remaining balance for purchasing each of the Restricted Shares under the Initial Grant will be funded by the Company.

49. Share incentive scheme (continued)

175 out of 190 of the Scheme Participants have accepted and subscribed the Restricted Shares with their own funds under the Scheme. In June 2017, a total number of 6,570,000 shares of the Company were purchased by the Trustee of the Scheme at a cost of RMB203,290,000 from the market out of cash contributed by the Group and the Scheme Participants and be held in trust for the relevant Scheme Participants until such shares are vested with the Scheme Participants in accordance with the provisions of the Scheme. The Restricted Shares granted and held by the Trustee until vesting are referred to as the treasury shares held under share incentive scheme and each treasury share shall represent one ordinary share of the Company.

In August and September 2017, due to resignation of certain Scheme Participants, a total number of 230,000 relevant Restricted Shares were sold by the Trustee to the market. Proceeds from the sale of those Restricted Shares were used to pay back the funds paid by those Scheme Participants and the Company to subscribe these Restricted Shares.

In June 2018, due to resignation of certain Scheme Participants, a total number of 287,100 relevant Restricted Shares were sold by the Trustee to the market. Proceeds from the sale of those Restricted Shares were used to pay back the funds paid by those Scheme Participants and the Company to subscribe these Restricted Shares.

On 16 November 2018, except for a total number of 273,900 Restrict Shares were expired, 1,752,300 shares with a total amount of RMB56,109,000 were vested under the share incentive scheme, resulting in the transfer out of RMB48,097,000 from the share incentive reserve. The weighted average share price at the date of vest of these shares was RMB32.02.

In November 2019, due to resignation of certain Scheme Participants, a total number of 80,400 relevant Restricted Shares were sold by the Trustee to the market. Proceeds from the sale of those Restricted Shares were used to pay back the funds paid by those Scheme Participants and the Company to subscribe these Restricted Shares.

In November 2019, a total number of 1,943,700 Restrict Shares were expired. Proceeds from the sale of those Restricted Shares were used to pay back the funds paid by those Scheme Participants and the Company to subscribe these Restricted Shares.

Conditions for unlocking the Initial Grant

Pursuant to the approval from the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), unlocking of the Restricted Shares under the Initial Grant shall be conditional upon fulfilment of the following conditions by the Company and shall be carried out in accordance with the unlocking arrangement as stipulated in the scheme of the Initial Grant:

49. Share incentive scheme (continued)

Conditions for unlocking the Initial Grant (continued)

Unlocking Period	Performance Assessment Target	Proportion of unlocking shares
First unlocking period	The weighted average return on equity ("ROE") for 2017 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises.	33%
	On the basis of the net profit in 2015, the compound growth rate of net profit for 2017 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises.	
	On the basis of the economic value added ("EVA") in 2015, the compound growth rate of EVA for 2017 shall be not lower than the specified objectives determined by the Board.	
Second unlocking period	The weighted average ROE for 2018 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises.	33%
	On the basis of the net profit in 2015, the compound growth rate of net profit for 2018 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises.	
	On the basis of the EVA in 2015, the compound growth rate of EVA for 2018 shall be not lower than the specified objectives determined by the Board.	
Third unlocking period	The weighted average ROE for 2019 shall be not lower than 12.8% and not lower than the 75 percentile of benchmarking enterprises.	34%
	On the basis of the net profit in 2015, the compound growth rate of net profit for 2019 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises.	
	On the basis of the EVA in 2015, the compound growth rate of EVA for 2019 shall be not lower than the specified objectives determined by the Board.	

49. Share incentive scheme (continued)

Conditions for unlocking the Initial Grant (continued)

Particulars and movements in the share incentive scheme are as follows:

Date of grant	As at 1 January 2019	Granted	Vesting	Bonus issue	Forfeited	Lapsed/ expired	As at 31 December 2019
16 November 2016	4,026,700	–	–	–	(80,400)	(1,943,700)	2,002,600

The fair value of the Restricted Shares granted was calculated based on the market prices of the Company's shares at the respective grant dates. The Group recognised expenses relating to the Scheme of approximately RMB5,753,000 in the consolidated statement of profit or loss during the year.

The fair value of the Restricted Shares granted was estimated as at the date of grant, using the Asian Options Model, taking into account the terms and conditions upon which the shares were granted. This value is inherently subjective and uncertain due to the assumptions made and the limitation of the valuation model used.

50. Directors', supervisors' and chief executives' remuneration

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

50. Directors', supervisors' and chief executives' remuneration (continued)

(a) Directors', supervisors' and chief executives' remuneration

2019	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Share incentive scheme expense RMB'000	Incentive bonus RMB'000
Executive directors								
Mr. Li Zhiming	2,175	5,342	-	-	139	-	238	5,453
Mr Yu Qingming (ii)	2,100	1,203	-	-	165	-	-	-
Mr. Liu Yong	2,000	5,116	-	-	139	-	192	-
Non-executive directors								
Mr. Chen Qiyu	-	-	-	-	-	-	-	-
Mr. Ma Ping	-	-	-	-	-	-	-	-
Mr. Hu Jianwei (ii)	-	-	-	-	-	-	-	-
Mr. Deng Jindong	-	-	-	-	-	-	-	-
Mr. Wen Deyong	-	-	-	-	-	-	-	-
Ms. Guan Xiaohui (iii)	-	-	-	-	-	-	-	-
Ms. Dai Kun (iv)	-	-	-	-	-	-	-	-
Mr. Wang Qunbin (v)	-	-	-	-	-	-	-	-
Independent non-executive directors								
Mr. Yu Tze Shan Hailson	300	-	-	-	-	-	-	-
Mr. Tan Wee Seng	300	-	-	-	-	-	-	-
Mr. Liu Zhengdong	300	-	-	-	-	-	-	-
Mr. Zhuo Fumin	300	-	-	-	-	-	-	-
Mr. Chen Fangruo (ii)	300	-	-	-	-	-	-	-
Supervisors								
Mr. Zhang Hong Yu (i)	1,120	2,142	-	-	139	-	-	-
Mr. Yao Fang	-	-	-	-	-	-	-	-
Ms. Jin Yi	484	77	-	38	131	-	-	-
Mr. Tao Wuping	300	-	-	-	-	-	-	-
Ms. Li Xiaojuan	-	-	-	-	-	-	-	-
	9,679	13,880	-	38	713	-	430	5,453

50. Directors', supervisors' and chief executives' remuneration (continued)

(a) Directors', supervisors' and chief executives' remuneration (continued)

2018	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Share incentive scheme expense RMB'000	Incentive bonus RMB'000
Executive directors								
Mr. Li Zhiming	2,894	1,894	–	–	112	–	1,011	5,030
Mr Yu Qingming (ii)	172	–	–	–	12	–	–	–
Mr. Liu Yong	2,342	1,272	–	–	112	–	817	3,375
Non-executive directors								
Mr. She Lulin (ix)	–	–	–	–	–	–	–	–
Mr. Wang Qunbin (v)	–	–	–	–	–	–	–	–
Mr. Deng Jindong	–	–	–	–	–	–	–	–
Mr. Chen Qiyu	–	–	–	–	–	–	–	–
Mr. Li Dongjiu (vi)	–	–	–	–	–	–	–	–
Mr. Lian Wanyong (vi)	–	–	–	–	–	–	–	–
Mr. Wu Yijian (viii)	–	–	–	–	–	–	–	–
Mr. Ma Ping	–	–	–	–	–	–	–	–
Mr. Wen Deyong	–	–	–	–	–	–	–	–
Ms. Rong Yan (viii)	–	–	–	–	–	–	–	–
Mr. Hu Jianwei (ii)	–	–	–	–	–	–	–	–
Ms. Guan Xiaohui (iii)	–	–	–	–	–	–	–	–
Independent non-executive directors								
Ms. Li Ling (ix)	300	–	–	–	–	–	–	–
Mr. Liu Zhengdong	300	–	–	–	–	–	–	–
Mr. Tan Wee Seng	300	–	–	–	–	–	–	–
Mr. Yu Tze Shan Hailson	300	–	–	–	–	–	–	–
Mr. Zhuo Fumin	300	–	–	–	–	–	–	–
Mr. Chen Fangruo (ii)	–	–	–	–	–	–	–	–
Supervisors								
Mr. Zhang Hong Yu (i)	1,059	501	–	–	112	–	–	–
Mr. Yao Fang	–	–	–	–	–	–	–	–
Mr. Yang Jun (vii)	83	1,088	–	–	11	–	–	–
Ms. Jin Yi	446	72	–	38	112	–	–	–
Mr. Tao Wuping	300	–	–	–	–	–	–	–
Ms. Li Xiaojuan	–	–	–	–	–	–	–	–
	8,796	4,827	–	38	471	–	1,828	8,405

50. Directors', supervisors' and chief executives' remuneration (continued)

(a) Directors', supervisors' and chief executives' remuneration (continued)

(i) Appointed on 12 January 2018.

(ii) Appointed on 28 December 2018.

(iii) Appointed on 8 March 2019.

(iv) Appointed on 27 June 2019.

(v) Resigned on 22 March 2019.

(vi) Resigned on 12 January 2018.

(vii) Appointed on 18 June 2015 and resigned on 12 January 2018.

(viii) Appointed on 9 March 2018 and resigned on 28 December 2018.

(ix) Resigned on 28 December 2018.

(b) Except the contribution to a retirement benefit scheme, no other retirement benefits were paid to any director during the year ended 31 December 2019.

(c) No termination benefits were paid to any director during the year ended 31 December 2019.

(d) No consideration paid to third parties for directors' services during the year ended 31 December 2019.

(e) No loans, quasi-loans or other dealings were entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of directors of the Company and of the holding company of the Company, or bodies corporate controlled by such directors, or entities connected with such directors, also including a shadow director of any director.

(f) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

51. Comparative amounts

As further explained in note 2(1)(i) to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

The interest expense and related bank charges on factoring of trade receivables, which were previously included in "finance costs" were presented in "losses on disposal of financial assets measured at amortised cost" as single line on the consolidated statement of profit or loss. The comparative amounts in the financial statements were represented accordingly.

52. Events after the reporting period

On 23 January 2020, the Company placed and issued 149,000,000 new H shares at the price of HKD27.30 per H share (the "**Placing Shares**"). The Placing Shares represent 11.1% and 4.8%, respectively, of the total issued H share capital and the total issued share capital of the Company as enlarged by the issue of the Placing Shares. The actual net proceeds of the placing were HK$4,027 million, equivalent to RMB3,567 million, intended to be used for the expansion of pharmaceutical distribution, retail network and medical device business as well as improvement of working capital after the expansion. Through the placing, the Group further optimized the shareholder structure and brought in a number of high-quality strategic investors, which would play a positive role in assisting the Company in further improving its strategies and governance capabilities and in fulfilling its social responsibilities.

The outbreak of coronavirus disease in early 2020 (the "COVID-19") has caused disruptions to the pharmaceutical industry in China as well as other countries and regions. Despite the challenges, governments and international organisations have implemented a series of measures to contain the epidemic. Based on the current financial and operating information of the Group as well as the external market environment and the stage of the epidemic, the Board anticipates that the Group's performance for the first quarter ending 31 March 2020 may decline on a year-on-year basis.

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