石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

2019 ANNUAL REPORT

CONTENT

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman and CEO)*
ZHANG Cuilong *(Vice-Chairman and Rotating CEO)*
WANG Zhenguo
PAN Weidong
WANG Huaiyu
LU Hua
LI Chunlei
WANG Qingxi
CHAK Kin Man

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
CHAN Siu Keung, Leonard
WANG Bo
LO Yuk Lam
YU Jinming
CHEN Chuan

AUDIT COMMITTEE

CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

NOMINATION COMMITTEE

CAI Dongchen *(Chairman)*
CHAN Siu Keung, Leonard
LO Yuk Lam

REMUNERATION COMMITTEE

CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

COMPANY SECRETARY

LEE Ka Sze, Carmelo

REGISTERED OFFICE

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR

Tricor Secretaries Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
  Corporation Limited
China CITIC Bank International Limited
Bank of China Limited
The Bank of Hebei Co., Ltd.
China Minsheng Banking Corp., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
The Export-Import Bank of China
Industrial and Commercial Bank of China
Bank of Communications Co., Ltd.
China Everbright Bank Company Limited

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK CODE

1093

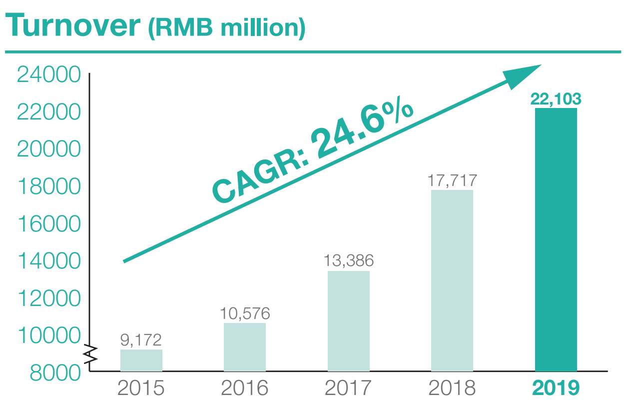
WEBSITE

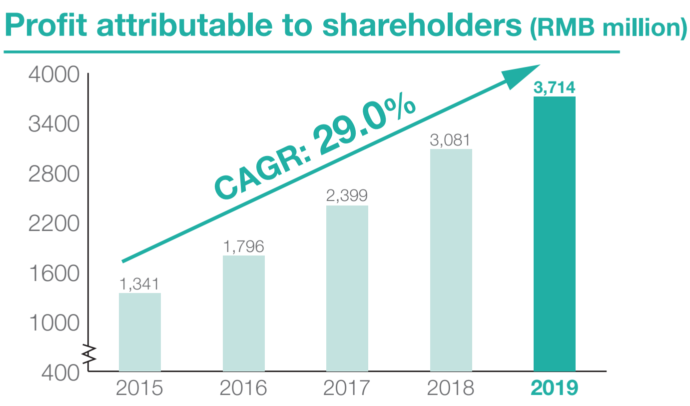
www.cspc.com.hk

Financial Highlights

	2019 *RMB'000*	2018 *RMB'000*	Change
Revenue by business units:			
Finished drugs	**17,937,001**	13,503,386	+32.8%
Vitamin C	**1,921,704**	1,783,510	+7.7%
Antibiotics	**878,921**	1,086,725	-19.1%
Others	**1,365,566**	1,342,919	+1.7%
Total revenue	**22,103,192**	17,716,540	+24.8%
Gross profit	**15,910,981**	11,737,353	+35.6%
Operating profit	**4,600,181**	3,822,962	+20.3%
Profit attributable to shareholders	**3,714,106**	3,080,802	+20.6%
Basic earnings per share	**RMB59.65 cents**	RMB49.36 cents	+20.8%
Final dividend per share	**HK20 cents**	HK18 cents	+11.1%

The Board has also proposed a bonus issue of one new share for every five existing shares held by shareholders of the Company, which is subject to shareholders' approval at the forthcoming annual general meeting of the Company.





Chairman's Statement

RESULTS

For the year ended 31 December 2019, the Group achieved a revenue of RMB22,103 million, which was 24.8% higher than last year; and a profit attributable to shareholders of RMB3,714 million, which was 20.6% higher than last year. Basic earnings per share amounted to RMB59.65 cents.

DIVIDEND

The Board of Directors of the Company has recommended the payment of a final dividend of HK20 cents per share for the year ended 31 December 2019 (2018: HK18 cents per share). Subject to approval by the shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 3 July 2020 to shareholders of the Company whose names appear on the register of members of the Company on 23 June 2020.

BONUS ISSUE OF SHARES

The Board has also proposed a bonus issue of one new share for every five existing shares held by shareholders of the Company whose names appear on the register of members of the Company on 23 June 2020, which is subject to shareholders' approval at the forthcoming annual general meeting of the Company. Details of this bonus issue will be disclosed in the circular to be published by the Company in due course.

INDUSTRY REVIEW

The year 2019 has witnessed the continuous progress of national healthcare reform and the promulgation of a number of policies regulating the development of the pharmaceutical industry. The implementation of various important measures, including nationwide centralised procurement of medicines, national reimbursement drug list negotiation, key drugs for monitoring and prescription control, accelerating review of innovative drugs, consistency evaluations of generic drugs and pilot trial of Diagnosis Related Groups (DRGs), has profound impact on the development of the pharmaceutical industry. Under such policy environment, Chinese pharmaceutical enterprises will accelerate the transformation of development focus from generic drugs to innovative drugs. With the strong R&D capability of innovation, rich pipeline of products, outstanding commercialization capability and comprehensive productivity, the Group has fully grasped the opportunities brought by the healthcare reform, further consolidated its competitive advantages and enhanced its market position.

BUSINESS REVIEW

In 2019, the Group's innovative drug products continued to maintain rapid growth. Key products such as NBP, Duomeisu, Jinyouli and Keaili recorded remarkable sales results once again. The new inclusion into 4 guidelines and conducting of more than 100 medical research projects cumulatively provided NBP with strong support for market penetration and continuous growth. The oncology drugs further enhanced their market coverage over target hospitals with the continuous increase in investment in academic-based promotion and expansion of professional sales force. Keaili has taken less than 2 years to build its sales team to nearly 1,000 people covering nearly 1,500 hospitals, and achieved a breakthrough in sales growth. For common generic drug products, Encun (clopidogrel bisulfate tablets) won the first place at the nationwide expansion tender of the "4+7" centralised procurement and rapidly entered the hospital market, demonstrating the development advantages of the Group's common generic drug products under the policy of nationwide centralised procurement of medicines. During the year, the Group's Qixiao (arbidol hydrochloride tablets) was relaunched. Its efficacy was quickly confirmed during the novel coronavirus epidemic, and was included into the national "Guidelines for Diagnosis and Treatment of Influenza" and "Guidelines for Diagnosis and Treatment of Novel Coronavirus Pneumonia".

BUSINESS REVIEW *(continued)*

Since the beginning of 2019, a total of 10 products have been granted drug registration approval in China, 16 products granted clinical trial approval and 17 products have passed the consistency evaluation of generic drugs. In addition, Xuanning was granted marketing approval by the U.S. Food and Drug Administration (FDA) during the year, making it the first Chinese innovative drug granted full approval by U.S. FDA. Key product Amphotericin B Cholesteryl Sulfate Complex has been qualified for priority review and is expected to be approved for launch in 2020; Mitoxantrone Liposome has completed enrolment for pivotal clinical trial and submitted the application for pre-NDA meeting; Duvelisib Capsules and JMT103 (RANKL target) have entered the pivotal clinical trial stage, being the fastest in China; ALMB-0166 and ALMB-0168 have been granted approval to commence clinical trials in Australia. The clinical development of products and indications has made good progress during 2019.

OUTLOOK

In addition to maintaining stable growth of its existing products, the Group will enhance its R&D efficiency and expedite the launch of new drugs with high potentials. The Group will also formulate effective sales strategies in response to the market environment and product advantages, so as to improve product mix and enhance its comprehensive competitiveness. The existing key products such as NBP, Duomeisu, Jinyouli, Keaili and Xuanning have their own competitive edges in terms of market and brand. The Group will continue to adopt the sales strategy of academic-based promotion and market penetration or development to achieve sustained rapid growth of these products. Newly launched products will become new growth drivers. Most of these products, including Daxinning (dronedarone hydrochloride tablets), Shuanling (pentoxifylline injections/tablets), Meiluolin (ticagrelor tablets), Gubangjia (alendronate sodium-vitamin D3 tablets), Gaoshunsong (acemetacin extended-release capsules), Qixiao (arbidol hydrochloride tablets), Luoruite (erlotinib hydrochloride tablets), Enxi (pramipexole hydrochloride tablets), montelukast sodium tablets/chewable tablets, sitagliptin phosphate tablets and nintedanib esilate soft capsules, are exclusive or first-to-market products in China. With strong clinical demands, the market potential is expected to reach between RMB1 billion and RMB3 billion for a single product. The Group will also actively participate in the nationwide centralised procurement of medicines to leverage the opportunity provided by the policy, in order to facilitate generic drugs to rapidly occupy the hospital market.

The Group has a leading R&D team in China with R&D centres located in Shijiazhuang, Shanghai and Suzhou, as well as California and New Jersey in the U.S.. It has a comprehensive layout for small molecule and macromolecule innovative drugs and new preparations covering major therapeutic areas, with more than 300 products under development. The Group will adhere to innovative R&D strategies and continue to increase R&D investment to ensure a stable growth.

APPRECIATION

I would like to take this opportunity to express my gratitude to all staff for their dedication and hard work, and to all our shareholders and customers for their continued support.

CAI Dongchen
Chairman

Hong Kong, 30 March 2020

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2019 with sales revenue reaching RMB17,937 million, 32.8% higher than the previous year.

(i) Innovative Drug Products

During the year, the Group continued to expand the dedicated sales force, accelerate market expansion in major cities and hospitals, and adopt different sales strategies based on the market positions and competitive landscape of the products, including i) stepping up market penetration into county-level hospitals and community medical institutions; ii) rapidly establishing strong sales teams for new products and actively developing the market of major hospitals; iii) striving for market share gain through emphasis on the competitive edge from product differentiation; and iv) strengthening market expansion in different indications through professional academic-based promotion. Leveraging the market competitiveness of the products and the effective sales strategies, innovative drug products maintained a strong growth momentum and achieved sales of RMB12,975 million in 2019, representing a 48.4% growth. In particular, the sales of NBP increased by 35.8% and the sales of oncology drugs increased by 148.8%, becoming the dual engines of the Group's growth.

The following are the Group's major innovative drug products:

NBP（恩必普）(butylphthalide soft capsule and injection)

NBP is a Class 1 new chemical drug in China and a patent-protected exclusive product mainly used for the treatment of acute ischemic stroke. NBP has been listed as one of the recommended drugs in previous editions of "Guidelines for Acute Ischemic Stroke Treatment in China". It has also been listed on more than ten guidelines and consensuses, including the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke of China", "Guidelines for the Assessment and Intervention of Cerebral Collateral Circulation in Ischemic Stroke in China (2017)", "Guidelines for the Diagnosis and Treatment of Cerebral Infarction with Chinese and Western Medicines in China (2017)", "Guidelines for the Reasonable Medication for Stroke in China (2019)" and "Guidelines for Clinical Management of Cerebrovascular Diseases in China (2019)". These serve to recognise the clinical efficacy of NBP for treating acute ischemic stroke and provide strong academic evidence for its academic-based promotion. The inclusion of both formulations of NBP into the national reimbursement drug list is also favourable for the promotion of sequential treatment (injection for emergency use and soft capsule for recovery use).

FINISHED DRUG BUSINESS *(continued)*

(i) Innovative Drug Products *(continued)*

NBP（恩必普）(butylphthalide soft capsule and injection) *(continued)*

For the exploration of new therapeutic areas, 134 research projects in respect of butylphthalide are in progress, including 69 fundamental and 65 clinical projects. In particular, butylphthalide soft capsule for the treatment of vascular dementia has been approved to commence phase III clinical trial directly, accelerating the expected launch for the new indication. In addition, NBP has also participated in seven national studies under the "13th Five Year Plan", including efficacy and safety studies of butylphthalide for new treatment areas such as cerebral small vessel diseases, aortic atherosclerotic cerebral infarction and intravenous thrombolysis or endovascular treatment for acute ischemic stroke. Of which the research of butylphthalide for the treatment of hemorrhagic stroke led by Beijing Tiantan Hospital was a new study in 2019. The phase II clinical trial of butylphthalide soft capsule in the U.S. has enrolled 112 patients. The development of new indications and markets will be able to bring new growth opportunities to NBP.

During the year, the Group further expanded its dedicated sales force of NBP and gradually developed the primary medical market of county level and community health centres. The number of hospitals with sales coverage increased rapidly with sales maintaining a high rate of growth. Currently, the coverage of NBP in the county-level market is still relatively low, and the growth potential for sequential treatment is promising. The Group believes that NBP will continue to enjoy a steady growth.

Oulaining（歐來寧）(oxiracetam capsule and lyophilised powder injection)

Oulaining is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. During the year, policies such as the review and uniform implementation of the national reimbursement drug list throughout the country, and introduction of the National Key Drug List for Monitoring and Prescription Control had a significant impact on the sales of Oulaining, resulting in a sales decline. Nevertheless, Oulaining has been marketed in China for over 16 years and has also been included into various guidelines such as the "Guidelines for the Diagnosis and Treatment of Cognitive Impairment of Cerebral Small Vessel Diseases 2019" and "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China 2015", and has become a basic drug commonly used in clinical practice with a relatively large user base of doctors and patients. In addition, a number of fundamental and clinical studies of oxiracetam led by authoritative neurology experts in China have been initiated, the results of which are believed to provide a strong support for the academic-based promotion of Oulaining.

During the year, Oulaining has basically achieved a complete transformation of its sales model to direct sales. The strengthening of control over each level of end-user market and the increased efforts in academic-based promotion will bolster growth within its reasonable scope of use.

FINISHED DRUG BUSINESS *(continued)*

(i) Innovative Drug Products *(continued)*

Xuanning（玄寧）(maleate levamlodipine tablet and dispersible tablet)

Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina. In December 2019, Xuanning received marketing approval from the U.S. Food and Drug Administration (FDA), becoming the first Chinese innovative drug granted full approval by the U.S. FDA. Levamlodipine is not the same chemical substance as amlodipine and has no reference drug. It is not expected to be included in the national centralised procurement in the near future. With the vigorous implementation of the national essential drugs policy, Xuanning will find better development opportunities.

During the year, the Group has commenced to establish direct sales team for Xuanning and stepped up the efforts in building customer network and managing the primary market of county level and below, resulting in a stable increase of sales. The Group will strengthen its efforts in the establishment of the OTC team, participate in the differentiated competition with competing products based on product distinctiveness and effectively implement its strategies in prescription conversion and brand building.

Jinyouli（津優力）(PEG-rhGCSF injection)

Jinyouli is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection and pyrexia due to low neutrophil count in patients during chemotherapy, thus ensuring the administration of standardised dosage of chemotherapy. Jinyouli is well supported by clinical evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte stimulating factor in China, covering lung cancer, breast cancer, lymphoma, ovarian cancer, colorectal cancer, gastric cancer and nasopharyngeal carcinoma, earning unanimous recommendations from domestic and foreign guidelines.

During the year, the Group launched the prefilled syringe of Jinyouli, with an enhanced accuracy of drug administration and dosage utilization rate. The needs of different markets are also met more effectively with dual dosage forms. Meanwhile, the Group accelerated the development of Jinyouli in prefecture-level and county-level hospitals and pursued strategic cooperation with a number of key hospitals, achieving rapid sales growth during the year. The Group will explore the application opportunities in immunotherapy and target therapy, and further extend the therapeutic areas to haematological and bone cancers, expanding the market potential for Jinyouli.

FINISHED DRUG BUSINESS *(continued)*

(i) Innovative Drug Products *(continued)*

Duomeisu（多美素）(doxorubicin hydrochloride liposome injection)

Duomeisu was developed by the "National Key Laboratory for New Pharmaceutical Preparations and Excipients" of the Group and supported by the "Major New Drug Development" projects in China, and for the first-line treatment of lymphoma, ovarian cancer, relapsed or metastatic breast cancer, soft tissue sarcoma and AIDS-related Kaposi sarcoma. Duomeisu has considerable advantages in terms of efficacy and safety (especially cardiac safety of patients) as compared to traditional anthracyclines.

After years of academic-based promotion, hospital development and marketing efforts, Duomeisu has become a leading brand in the domestic doxorubicin liposomal market. In addition, Duomeisu has started the consistency evaluation in 2019, which will further enhance its brand advantage and provide strong support for market share expansion.

During the year, the sales of Duomeisu have maintained a rapid growth. The Group will continue to build on its competitive resources to strengthen academic-based promotion, cooperate with professional academies and experts, and carry out new clinical studies in order to enhance the market recognition and acceptance. Moreover, apart from strengthening the existing sales areas such as haematological cancer, breast cancer, gynecologic cancer and bone cancer, the Group will continue to explore new areas such as leukemia, liver cancer, bladder cancer, lung cancer and gastric cancer, with an aim of sustaining a steady sales growth of Duomeisu.

Keaili（克艾力）(paclitaxel for injection (albumin-bound))

Keaili is the first-to-market generic of new generation of paclitaxel chemotherapy drug in China with the passing of consistency evaluation. It is made of stable nanoparticles formed by the integration of paclitaxel and human serum albumin (endogenous). The product has the distinctive features of convenience, high efficacy and safety. It can enhance the efficacy of paclitaxel drugs and is convenient to use. Toxic solvents and pre-treatment are not required and the administration only takes 30 minutes.

Since the launch of Keaili, the Group has continuously increased investment in clinical trials and related medical projects, with 145 medical projects initiated to cover 13 areas of oncology including breast cancer, gynecologic cancer, gastric cancer, lung cancer and pancreatic cancer. Meanwhile, the Group has persevered with professional academic-based promotion and has organised more than 1,000 academic activities.

During the year, Keaili has achieved a very remarkable growth in sales. The Group will grasp the opportunity of Keaili being included into the national centralised procurement list with the lowest price to accelerate hospital development and market penetration, and continue to adopt a professional academic-based promotion strategy in order to seize the market share of paclitaxel and achieve rapid sales growth of Keaili.

FINISHED DRUG BUSINESS *(continued)*

(i) Innovative Drug Products *(continued)*

Ailineng（艾利能）(elemene injection)

Ailineng is an oncology drug developed in China and has been included into the national reimbursement drug list. The product is mainly used for the treatment of nerve glioma, brain metastases and malignant pleural and peritoneal effusion, and can be used in combination with radiotherapy and chemotherapy to boost treatment efficacy. After years of clinical verification, it has been widely recognised by the medical profession. The liquid formulation of the product has been granted patent in China. Compared with the traditional emulsion formulation, the purity and content of elemene are further improved with significant reduction of adverse clinical reaction.

The current sales volume of Ailineng is still not significant. The Group will continue to strengthen academic-based promotion, initiate clinical medical research and constantly promote the transformation of regional sales model to further expand the market share of Ailineng.

(ii) Common Generic Drug Products

During the year, the Group continued with the strategy of enhancing sales mix by strengthening the promotion of non-antibiotic drugs and expanding the product line of oral formulation for chronic diseases. Products with higher sales growth included aspirin enteric-coated tablets, troxerutin tablets and compound aminophenazone barbital injection. The Group also actively pushed forward the consistency evaluation for key products, with 17 drugs passing during the year (cumulative 23). Products passing the consistency evaluation can provide patients with medication options of high-quality and competitive price, and can relieve the burden of medical insurance expenditures. The Group will make full use of the opportunities brought about by the consistency evaluation to actively strive for a larger market share for the products. In addition, the Group will also make full use of the development opportunities brought about by the drug centralised procurement policy to develop the hospital market for common generic drug products.

In 2019, common generic drug products achieved sales of RMB4,962 million, representing a 4.2% growth. In addition to the continuous implementation of the above development strategies, the Group will also promote the direct sales model through professional academic-based promotion to improve doctors’ recognition of the products, striving for better promotion results and higher sales growth.

FINISHED DRUG BUSINESS *(continued)*

(iii) Newly Launched Products

The strong R&D capability and rich pipeline of drugs under development enable the Group to have a continuous launch of new products. The Group believes that these new products will contribute considerable sales revenue in the next three years and become a new growth driver.

Qixiao (琦效) (arbidol hydrochloride tablets)

As a broad-spectrum antiviral drug, arbidol is mainly used for the treatment of viral infections represented by influenza. With its good clinical efficacy and outstanding performance in the treatment of novel coronavirus pneumonia, arbidol has been included into the national "Guidelines for Diagnosis and Treatment of Influenza" and "Guidelines for Diagnosis and Treatment of Novel Coronavirus Pneumonia".

The Group has established a dedicated sales team of more than 500 people, and will put full effort in the research of arbidol for the treatment of influenza, novel coronavirus and other viruses. Given the high incidence of influenza, Qixiao is expected to have a great market potential.

Daxinning (達新寧) (dronedarone hydrochloride tablets)

Dronedarone is indicated for sinus arrhythmia patients with a medical history of paroxysmal or persistent atrial fibrillation (AF) to reduce the risk of hospitalization due to atrial fibrillation, with high clinical demand and short supply in the market.

The Group has established a dedicated sales team for Daxinning to vigorously explore the market of dronedarone in China. As an exclusive product in China, Daxinning has a huge market potential.

Shuanling (舒安靈) (pentoxifylline injections/tablets)

Pentoxifylline is a classic drug with clinical application for more than a century and can be used as an essential drug in Europe and the U.S.. It is indicated for treating dizziness caused by circulation cerebral ischemia, improving cognitive dysfunction caused by cerebral blood supply insufficiency and treating intermittent claudication caused by peripheral artery disease, and venous ulcers.

The Group has established a dedicated sales team for Shuanling and will cultivate doctors' perception of using pentoxifylline through clinical trial projects. Since most of the competing products of pentoxifylline are subject to medical insurance restrictions, the current sales of pentoxifylline are increasing rapidly. Thus, Shuanling is expected to have a considerable market potential.

FINISHED DRUG BUSINESS *(continued)*

(iii) Newly Launched Products *(continued)*

Meiluolin (美洛林) (ticagrelor tablets)

Ticagrelor is a first-line antiplatelet agent for the treatment of acute coronary syndrome and the top recommendation in the "Clinical Pathway of Acute ST-Segment Elevation Myocardial Infarction (2019)". According to market data, total sales of the antiplatelet market amounts to RMB15.4 billion in 2019, of which P2Y12 receptor inhibitors accounted for 60%. Ticagrelor demonstrated the strongest growth among all with a CAGR of 103%, having a great market potential.

Meiluolin is the second-to-market generic drug in China with an invention patent for its crystalline form. It is more stable than the originator drug and is the most value for money product currently available in the market. The Group will gradually establish a platform of experts in the cardiovascular field and develop a cardiovascular product portfolio. It will also build its brand influence through professional academic promotion and accelerate market development to seize market share.

Gubangjia (固邦佳) (alendronate sodium-vitamin D3 tablets)

Alendronate sodium-vitamin D3 is mainly used for the treatment of osteoporosis in postmenopausal women and osteoporosis in men to increase bone mass. The conservative estimate of osteoporosis patients in China is 70 million. With the acceleration of aging population and changes in lifestyle, the incidence of osteoporosis is still increasing gradually. With the current treatment rate of only 11.5%, there is a promising market prospect.

Gubangjia is the first and only compound preparation of alendronate sodium and vitamin D3 in China. The Group will expand the coverage of academic activities for doctors and patients, and establish its own sales force.

Gaoshunsong (高順松) (acemetacin extended-release capsules)

Acemetacin is a non-steroidal anti-inflammatory drug (NSAIDs) mainly used for the treatment of osteoarthritis, ankylosing spondylitis and rheumatoid arthritis. The overall sales of NSAIDs market are estimated to be over RMB13 billion in 2018 with a three-year CAGR of 15.64%, showing a steady growth in market size.

Gaoshunsong is an exclusive generic drug in China. The Group is establishing a direct sales team and expanding end-user market in order to promote more patients to use the product.

FINISHED DRUG BUSINESS *(continued)*

(iii) Newly Launched Products *(continued)*

Enxi (恩悉) (pramipexole dihydrochloride tablets)

Enxi is indicated for the treatment of signs and symptoms of adult idiopathic Parkinson's disease, and is the first pramipexole dihydrochloride tablet passing the consistency evaluation in China. The number of patients with Parkinson's disease increases about 100,000 annually and is expected to reach 4.94 million in 2030. In 2018, the sales of pramipexole accounted for approximately 41.2% of the overall domestic market for Parkinson's disease drugs with rapid growth at a CAGR of 18%. Therefore, Enxi is expected to have a promising sales prospect.

The Group will initiate clinical studies including comparison with the originator drug and combo study with butylphthalide for the treatment of vascular Parkinsonism/Parkinson's syndrome. The Group will also enhance doctors' diagnosis and treatment standard for Parkinson's disease, strengthen patient education and increase the consultation rate of patients with Parkinson's disease. Currently, the price of Enxi is only 47% of the originator product, which can significantly reduce patients' financial burden as well as maximize its clinical value.

Luoruite (洛瑞特) (erlotinib hydrochloride tablets)

Erlotinib is a first-line drug for the treatment of patients with advanced EGFR mutation-positive lung cancer. It is the first generation EGFR-TKI drug and has been unanimously recommended by domestic and foreign guidelines. Luoruite is the first-to-market erlotinib generic in China with consistency evaluation passed and was included in category B of the national reimbursement drug list. With a lower price than the originator drug, it has a higher pharmacoeconomic value.

Leveraging on the advantages of products and resources, the Group will compete in the first generation EGFR-TKI market so as to capture new patients and replace existing ones among the target population of patients with EGFR mutation-positive non-small cell lung cancer.

Montelukast sodium tablets/chewable tablets

Montelukast is mainly used for the prevention and long-term treatment of asthma. Asthma is one of the most common diseases in the world today. There are approximately 30 million asthma patients in China with prevalence of children at 3.02% and people over 14 years of age at 1.24%, and the incidence is increasing at an alarming rate. Montelukast has a sales of RMB3.2 billion in China and has been included in the 1st batch of "4+7" pilot centralised procurement. The Group's montelukast sodium tablets/chewable tablets are deemed as passing the consistency evaluation. The Group will commit to promoting the clinical use of the product and preparing for the next round of national centralised procurement.

FINISHED DRUG BUSINESS *(continued)*

(iii) Newly Launched Products *(continued)*

Sitagliptin phosphate tablets

Sitagliptin is mainly used for the treatment of type 2 diabetes. It is the first dipeptidyl peptidase-4 (DPP-4) inhibitor in the market and has been fully recognised by domestic and overseas clinical guidelines. With increasing market recognition, sitagliptin gradually leads DPP-4 inhibitors to become one of the major players in the diabetic market. Ranking first in the world, the number of diabetic patients in China is 116 million, creating a huge market for diabetes drugs. Currently, the sales of sitagliptin have maintained rapid growth. It is expected that the Group's sitagliptin will gain a certain market share after its approval.

Nintedanib esilate soft capsules

Nintedanib is mainly used for the treatment of interstitial lung disease associated with idiopathic pulmonary fibrosis or systemic sclerosis. It is recommended by the guidelines together with pirfenidone for treating pulmonary fibrosis, but with a higher safety. The Group will strive to launch this product as the first-to-market generic in China.

VITAMIN C BUSINESS

In 2019, the vitamin C business continued to build on its market strengths in terms of capacity, quality and production cost. Both sales volume and export market share were able to further increase even though already ranked the first place in the industry. However, the price decline has weakened the business performance during the year as compared to previous year. As it is expected that the overall supply of vitamin C will continue to be excessive for a long time, significant product price rebound is unlikely. In addition to continuously improving product quality and reducing production costs, the Group will keep focusing on the development of untapped market, optimizing customer mix, increasing number of end-user customers and reducing energy consumption in order to achieve continuous enhancement of overall market competitiveness of the business.

ANTIBIOTICS BUSINESS

The overall demand and prices of antibiotics have remained low as a result of the policy of restrictive use of antibiotics over the years, and the business performance remained weak in 2019. The Group will keep improving product quality, developing high-end market, striving for high-end registration as well as making use of the product chain advantage to improve market competitiveness.

OTHER BUSINESSES

The functional food business (including caffeine additives and vitamin supplements) recorded a stable growth in 2019. The market environment of caffeine has seen changes with increase in competitors and total supply. Thanks to the Group's increased efforts in technology upgrade, cost reduction and market development, its share of the export market has greatly increased and a relatively good performance has been achieved.

Management Discussion And Analysis

RESEARCH AND DEVELOPMENT

The Group firmly believes in the importance of investing in research and development so that the Group can have strong product and technology innovation capability as well as a rich pipeline of drugs under development. The R&D expenses for the year amounted to RMB2,000 million (charged to profit or loss statement), representing an increase of 49.1% and accounting for approximately 11.2% of the finished drug business revenue. At present, the Group has established four major R&D centres in China and overseas, owns ten core technology platforms and an R&D team with more than 1,800 people. There are more than 300 projects in the pipeline, of which over 40 are innovative small molecule drugs, over 50 are innovative macromolecule drugs and over 20 are drugs of new preparation, primarily focusing on the therapeutic areas of oncology, autoimmunity, psychiatry and neurology, digestion and metabolism, cardio-cerebrovascular system and anti-infectives. According to the evaluation results of the "National Enterprise Technology Centre (2019)" issued by the National Development and Reform Commission, the Group was ranked as "excellent", proving the Group's capabilities in R&D and innovation.

The major R&D progress of the Group since the beginning of 2019 is as follows:

10 drugs were granted drug registration approval in China. Of which sunitinib malate capsules and dronedarone hydrochloride tablets are first-to-market generics, pramipexole dihydrochloride tablets is the first generic passing consistency evaluation, and products like clopidogrel bisulfate tablets, ticagrelor tablets and rivaroxaban tablets have great market potentials. There are 27 drug candidates pending drug registration approval. As for international registration, 1 drug was granted U.S. NDA approval, 2 drugs granted U.S. ANDA approval and 6 drugs candidates are pending approval.

During the year, the Group reached a peak in terms of application and approval for consistency evaluation, with 17 products passing the evaluation and 25 products submitted for approval application.

16 new drug candidates, including 7 innovative small molecule drug candidates, 5 innovative macromolecule drug candidates and 4 new preparations, were granted clinical trial approval, of which 12 in China and 4 in the U.S. and Australia, further enriching the clinical pipeline of new drugs. At present, the Group has 42 products under clinical trials, including 31 innovative drugs and 11 new preparations.

Apart from in-house research and development, the Group has also been proactively seeking external cooperation and acquisition opportunities. During the year, the Group has 1) entered into a licensing agreement with Hangzhou Innogate Pharma Co., Ltd. for 5 small molecule compounds; 2) acquired the entire equity interests in Yong Shun Technology Development Co., Ltd. and obtained its R&D platform of antibodies and product pipelines; 3) entered into a licensing agreement with Shanghai Institute of Materia Medica for 4 small molecule compounds; 4) established a joint venture with Shanghai Haihe Pharmaceutical Co., Ltd for the joint development of 5 new drug projects; 5) entered into a licensing agreement with Synermore Biologics (Suzhou) Co., Ltd. for omalizumab biosimilar; and 6) entered into a product transfer agreement with Shanghai Acebright Pharmaceuticals Group Co., Ltd. for erlotinib hydrochloride.

The Group attaches great importance to the protection of intellectual property rights and actively files patent applications for its research and development projects. During the year, the Group has filed 161 domestic patent applications (61 authorised) and 62 overseas patent applications (9 authorised).

Management Discussion And Analysis

RESEARCH AND DEVELOPMENT *(continued)*

In the next three years, the Group is expected to launch more than 50 new products, over 15 of which will be major products with a market potential of more than RMB1 billion each, providing strong support for the Group's high-quality growth in the future.

As a national innovative enterprise in China equipped with a strong R&D team and product pipelines, the Group will definitely take the lead in future market competition.

IMPACT OF CORONAVIRUS DISEASE (COVID-19)

Since the novel coronavirus outbreak in January 2020, the close-off management throughout the country has severely affected the outpatient visits and hospitalization rate, marketing activities and drug distribution have also been hindered. Except for certain finished drug products related to the epidemic achieving sales above expectation, the sales of other finished drug products have been adversely affected to various degrees.

During the epidemic, the Group, on one hand, actively responded to various prevention and control measures of the government, and ensured sufficient supply of products with urgent clinical needs such as arbidol. On the other hand, the new ways of doing academic promotion such as online academic meetings and lectures have generated good results, alleviating the impact on sales from the epidemic to a certain extent. Currently, the Group has fully resumed operation and business has been back to normal, except for Hubei Province. The Group will endeavour to make up for the epidemic's impact on the business progress of the year.

FINANCIAL REVIEW

Results

	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue:			
Finished drugs	**17,937,001**	13,503,386	+32.8%
Vitamin C	**1,921,704**	1,783,510	+7.7%
Antibiotics	**878,921**	1,086,725	-19.1%
Others	**1,365,566**	1,342,919	+1.7%
Total	**22,103,192**	17,716,540	+24.8%
Operating profit	**4,600,181**	3,822,962	+20.3%
Operating profit margin	**20.8%**	21.6%	
Profit attributable to shareholders	**3,714,106**	3,080,802	+20.6%

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 32.8% to RMB17,937 million in the current year. Innovative drugs, in particular, delivered a strong growth with sales reaching RMB12,975 million, representing a growth of 48.4%. Revenue from innovative drugs as a proportion of total revenue of the Group further increased from 49.3% in 2018 to 58.7% in the current year.

FINANCIAL REVIEW *(continued)*

Results *(continued)*

Operating profit margin slightly decreased from 21.6% in 2018 to 20.8% in 2019. It is the mixed results of the following factors: (i) higher proportion of sales from innovative drugs which have a relatively higher profit margin; (ii) higher selling expense to revenue ratio of the finished drug business resulting from the Group's increased efforts in market development; (iii) significant increase in research and development expenses; and (iv) decreased profitability of the vitamin C business due to lower selling prices.

Selling and Distribution Expenses

Selling and distribution expenses was RMB8,712 million in 2019 as compared to RMB6,185 million in 2018. The increase in selling and distribution expenses was primarily attributable to (i) expansion of sales force of the innovative drugs; (ii) increased efforts in marketing and academic promotion for the newly launched innovative drug product "Keaili"; and (iii) increased efforts in academic promotion for some generic drug products.

Administrative Expenses

Administrative expenses was RMB749 million in 2019 as compared to RMB657 million in 2018. The increase in administrative expenses was primarily attributable to the expanded scale of operation of the Group.

Research and Development Expenses

R&D expenses was RMB2,000 million in 2019 as compared to RMB1,342 million in 2018. The increase in R&D expenses was primarily attributable to (i) increased number of products under development; (ii) increased spending on ongoing and newly initiated clinical trials; (iii) increased spending on product collaboration projects; and (iv) increased spending on quality and efficacy consistency evaluation of generics.

Liquidity and Financial Position

For the financial year of 2019, the Group's operating activities generated a cash inflow of RMB3,784 million (2018: RMB3,795 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly improved from 37 days in 2018 to 35 days this year. Average turnover period of inventories (ratio of balance of inventories to cost of sales) decreased from 178 days in 2018 to 149 days this year. Current ratio of the Group was 2.2 as at 31 December 2019, higher than 1.9 a year ago. Capital expenditure for the year amounted to RMB2,185 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As at 31 December 2019, cash and cash equivalents amounted to RMB4,118 million (2018: RMB4,336 million) and bank borrowings amounted to RMB23 million (2018: RMB71 million), resulting in a net cash position of RMB4,095 million (2018: RMB4,265 million).

All of the Group's borrowings are denominated in Renminbi. The Group's sales revenue are denominated in Renminbi for domestic sales in China and in US dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

FINANCIAL REVIEW *(continued)*

Pledge of Assets

As at 31 December 2019, structured bank deposits amounting to RMB195 million and buildings amounting to RMB34 million have been pledged to secure certain banking facilities of the Group.

Dividend Policy

It is the present intention of the Board to provide shareholders with regular dividends with a normal target payout ratio of not less than 30 per cent of the Group's core profit on a full year basis. The actual amount of dividends will depend on a number of factors including but not limited to financial results, financial position and funding needs of the Group.

Employees

As at 31 December 2019, the Group had approximately 17,300 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards and bonuses to staff based on the performance of the Group and individual employee.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in bulk drug business in order to achieve long-term sustainable growth.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standard of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2019 except the deviation from code provision A.2.1 as set out under "CHAIRMAN AND CHIEF EXECUTIVE OFFICER".

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine executive directors, one non-executive director and five independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 36 to 39 of this annual report.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the Company's subsidiaries is responsible for the day-to-day management and operation of the respective individual business units.

Corporate Governance Report

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2019. Individual attendance of each director at the regular board meetings and committee meetings in 2019 is set out below:

	Number of meetings attended/held			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Cai Dongchen	4/4			1/1
Zhang Cuilong	4/4			
Wang Zhenguo	4/4			
Pan Weidong	4/4			
Wang Huaiyu	4/4			
Lu Hua	4/4			
Li Chunlei	4/4			
Wang Qingxi	4/4			
Chak Kin Man	4/4			
Non-Executive Director:				
Lee Ka Sze, Carmelo	4/4	4/4	1/1	
Independent Non-Executive Directors:				
Chan Siu Keung, Leonard	4/4	4/4	1/1	1/1
Wang Bo	4/4	4/4	1/1	
Lo Yuk Lam	4/4			1/1
Yu Jinming	4/4			
Chen Chuan	3/4			

The Company has received an annual confirmation of independence from each of the independent non-executive directors as of the date of this report. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

There is no financial, business, family or other material/relevant relationship between Board members.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of three years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Wang Bo.

The remuneration of directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

A meeting was held in 2019 to consider and make recommendations to the Board on the remuneration of directors of the Company.

NOMINATION COMMITTEE

The Nomination Committee of the Company is responsible for formulating and implementing the policy for nominating potential candidates to the Board, and assessing the independence of independent non-executive directors. In discharging its duties, the committee regularly reviews the structure, size and composition of the Board so as to ensure it is aligned with the business objectives of the Group. The committee comprises three members, namely Mr. Cai Dongchen (Chairman), Mr. Chan Siu Keung, Leonard and Prof. Lo Yuk Lam.

A meeting was held in 2019 to review the structure, size and composition of the Board, assess the independence of independent non-executive directors and make recommendation to the Board on the re-appointment of directors. The Company has adopted a nomination policy which sets out the selection criteria (including but not limited to work experience, cultural and education background, reputation, professional experience, length of service, gender and age of the candidate) and nomination process of directors.

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process, risk management and internal control system of the Group. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Wang Bo.

Four meetings were held in 2019. At the meetings, the committee discussed and reviewed the following matters:

1. the 2018 annual results, annual report and results announcement;

2. the external auditor’s report to the Audit Committee in respect of the 2018 annual audit;

3. the quarterly results for the three months ended 31 March 2019 and results announcement;

4. the 2019 interim results, interim report and results announcement;

5. the external auditor’s report to the Audit Committee in respect of the 2019 interim review;

6. the quarterly results for the nine months ended 30 September 2019 and results announcement;

7. the performance of the external auditor and its remuneration;

8. connected transactions during the year ended 31 December 2018; and

9. the systems of risk management and internal controls and the effectiveness of the internal audit function.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

Details of the participation in continuous professional development by the directors during the year are summarized in the table below.

	Attending training course/ seminar/forum/ conference	Reading regulatory update or materials relevant to the Company or its business
Executive Directors:		
Cai Dongchen	✓	✓
Zhang Cuilong	✓	✓
Wang Zhenguo	✓	✓
Pan Weidong	✓	✓
Wang Huaiyu	✓	✓
Lu Hua	✓	✓
Li Chunlei	✓	✓
Wang Qingxi	✓	✓
Chak Kin Man	✓	✓
Non-Executive Director:		
Lee Ka Sze, Carmelo	✓	✓
Independent Non-Executive Directors:		
Chan Siu Keung, Leonard	✓	✓
Wang Bo	✓	✓
Lo Yuk Lam	✓	✓
Yu Jinming	✓	✓
Chen Chuan	✓	✓

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for overseeing the Group's risk management and internal control systems, and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report

Effective risk management is the key to sustainable business success. As a major pharmaceutical group based in mainland China, we face a diverse range of risks and uncertainties that could have a materially adverse impact on the business or results of operations. Our approach to risk management is therefore an ongoing process of identification, evaluation and management of the principal risks affecting the business.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented — principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group — regular meetings with each business unit to ensure principal risks are properly managed, and new or changing risks are identified;

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control systems — review of the annual review report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

Internal Control System

The internal control system of the Group is designed to facilitate effective and efficient operations, ensure the maintenance of proper accounting records, ensure compliance with applicable laws and regulations, identify and manage potential risks and safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

During 2019, the Group's internal audit function has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering all material financial, operational and compliance controls, and risk management. In addition, the review has considered the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The review report was submitted to the Audit Committee and the Board for their review.

Apart from review of the annual review report submitted by the internal audit function, the Audit Committee also had regular meetings with the external auditor and reviewed the reports provided by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations given by the external auditor to remedy the control issues identified or to further improve the internal control system.

The Board formed its own view on the effectiveness of the systems based on the review of the annual review report and the recommendation of the Audit Committee.

In respect of the year ended 31 December 2019, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

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

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

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

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

5. review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

The Board has performed the above duties during the year.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged approximately RMB3,872,000 for audit services and RMB1,021,000 for non-audit services. The non-audit services consist of review of interim financial statements and continuing connected transactions.

FINANCIAL REPORTING

The Directors' responsibilities for the financial statements are set out on page 49 and the responsibilities of the external auditor are set out on page 50 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMPANY SECRETARY

The Company Secretary, Mr. Lee Ka Sze, Carmelo, is a practicing solicitor in Hong Kong. He is currently a partner of Messrs. Woo, Kwan, Lee & Lo and is not a full time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lee is Mr. Chak Kin Man, an executive director of the Company. During 2019, Mr. Lee has confirmed that he has taken no less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

The objective of communications with shareholders is to provide them with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner. The Company uses a range of communication tools to ensure its shareholders and investors are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

The Company also actively attends different forms of investors' communication activities, including meetings with investors, telephone conferences, activities organized by sell side institutions and non-deal roadshows, with the hope to enhance corporate transparency so that investors can have a better understanding of the business model and latest development strategy of the Group. During 2019, management of the Company has attended over 280 one-on-one or group meetings. In addition, an Investor Day focused on R&D platform and product pipeline was held in Shanghai in October 2019 with more than 300 participants. Our persistent efforts in active communications with shareholders was widely recognized by the capital market with the consecutive winning of the titles — "Most Honored Company in Asia", "Best Investors Relations Program — First Place", "Best Corporate Governance" and "Best ESG/SRI Metrics" of the Health Care & Pharmaceuticals sector in the 2019 Institutional Investors Poll organized by the Institutional Investor Magazine.

In addition, the Company maintains a website at www.cspc.com.hk as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other key information are available for public access.

In order to enable shareholders and investors to exercise their rights in an informed manner and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders and investors may at any time send their enquiries and concerns to the Company via the Company's website. Shareholders may also make enquiries with the Board at the general meetings of the Company.

GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5 per cent of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting.

The request —

(a) must state the general nature of the business to be dealt with at the meeting;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(c) may consist of several documents in like form;

(d) may be sent in hard copy form or electronic form; and

(e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

PUTTING FORWARD PROPOSAL AT ANNUAL GENERAL MEETING ("AGM")

Pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) can make a request to circulate a resolution for an AGM if they represent —

(a) at least 2.5 per cent of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or

(b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request —

(a) may be sent in hard copy form or electronic form;

(b) must identify the resolution of which notice is to be given;

(c) must be authenticated by the person or persons making it; and

(d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The procedures for shareholders to propose a person for election as a director have been uploaded to the Company's website.

2019 GENERAL MEETING

At the 2019 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee, Remuneration Committee and Nomination Committee have attended the 2019 annual general meeting to ensure effective communication with shareholders. The attendance record of the Directors at the 2019 general meeting is set out below:

	General meeting attended/held
Directors	
Executive Directors:	
Cai Dongchen	1/1
Zhang Cuilong	0/1
Wang Zhenguo	0/1
Pan Weidong	0/1
Wang Huaiyu	0/1
Lu Hua	0/1
Li Chunlei	0/1
Wang Qingxi	0/1
Chak Kin Man	1/1
Non-Executive Director:	
Lee Ka Sze, Carmelo	1/1
Independent Non-Executive Directors:	
Chan Siu Keung, Leonard	1/1
Wang Bo	0/1
Lo Yuk Lam	0/1
Yu Jinming	0/1
Chen Chuan	0/1

CONSTITUTIONAL DOCUMENTS

During the year, there is no change in the Company's constitutional documents.

Directors' Report

The board of directors of the Company (the "Board") is pleased to present this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries, associate and joint ventures are set out in notes 43, 17A and 17B to the consolidated financial statements, respectively.

BUSINESS REVIEW

Overview

The Group is principally engaged in the development, manufacture and sales of medicines and pharmaceutical related products primarily in the People's Republic of China (the "PRC" or "China").

The finished drug products of the Group are primarily sold in China. The existing product portfolio consists of antibiotics, cardio-cerebrovascular drugs, diabetes drugs, neurology drugs, oncology drugs and traditional Chinese medicine. Some products such as "NBP", "Duomeisu" and "Jinyouli" are categorized as innovative drugs while some other products such as amoxicillin capsules, ceftriaxone sodium for injection and meropenem for injection are categorized as common generic drugs. The primary end-user customers of our finished drug products include hospitals, health-care centres, clinics and pharmacy stores. We generate revenue by selling our finished drug products to distributors which in turn sell our products to the end-user customers.

The bulk drug products of the Group include antibiotics, vitamin C and caffeine in the bulk powder form. Apart from the market in China, a significant part of the bulk drug products is sold in overseas markets, including U.S., Germany, Japan and India. We generate revenue by selling our bulk drug products to pharmaceutical companies, food and beverages manufacturers and distributors.

The Group has a strong research and development team which focuses on the development of innovative drugs. We also collaborate with leading research institutions to broaden our sources of new drugs. It is our strategy to continue to invest in research and development in order to maintain a sustainable growth of our business.

With over 17,300 employees, the Group's headquarters along with its major production facilities and research and development centres are located in Shijiazhuang City, Hebei Province, the PRC.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties

The following risks and uncertainties may affect the results and business operations of the Group, some of which are inherent to pharmaceutical sector and some are from external sources.

(i) Drug approval process

The actual timing of market launch of our products under development could vary significantly from our estimates due to a number of factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties of the outcome. Any delay or failure in the process could adversely affect the timing of market launch of our products. The Group is committed to investing in research and development of new drugs in order to ensure a rich product pipeline.

(ii) Results of drug tenders

Our sales and profitability depend on our ability to win in the drug tenders for our products at a desirable price in China. We may fail to win bids in the tenders due to various factors, including uncompetitive bidding price. If our products fail to win at the drug tenders or the new tender prices are significantly cut, the market share, sales and profitability of the products concerned could be adversely impacted. We have a team of staff handling drug tenders of our products. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

(iii) Compliance with certain PRC environmental and safety regulations

We are subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to discharge of waste, disposal of hazardous substances, noise pollution and safety of our workers. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our production facilities and obligations to take corrective measures. In addition, we may need to incur additional costs and capital expenditure in order to comply with any new or amended standard. We have established specific department to inspect and monitor the environmental performance of the Group. The department will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

(iv) Exclusion of products from drug reimbursement list

Under the PRC medical insurance scheme, patients can obtain reimbursement of all or a portion of the cost of drugs listed in the National Reimbursement Drug List or the Provincial Reimbursement Drug List (the "Reimbursement Lists"). The Reimbursement Lists are reviewed and updated from time to time. There is no assurance that our products will be or continue to be listed in the Reimbursement Lists. The entry into and the removal from the Reimbursement Lists are beyond our control. The removal of any of our products from the Reimbursement Lists may have an adverse impact on the sales of the products concerned.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties *(continued)*

(v) Illegal practice of employees or third-party distributors

The Group prohibits our employees and third-party distributors from engaging in corruption practices to influence the procurement decision of hospitals. However, we may not be able to effectively ensure that every employee or third-party distributor complies at all times with our policies. If such illegal practices or improper conduct occur, this may harm our reputation or expose us to regulatory investigations and potential punishment. The employee handbook and sales contracts entered into with third-party distributors contain specific rules to prohibit illegal practices in order to prevent misconduct from occurring.

(vi) Side effects of products

Our products may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical studies, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by our customers. In addition, our products may be perceived to cause severe side effects if products of other companies containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects. If our products cause or perceived to cause severe side effects, our sales and profitability could be adversely affected. We have adopted a product recall procedure to ensure that our products could be quickly recalled in case of safety or quality concerns.

(vii) Product liability

Claims for product liability and product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated, or if we are alleged to have engaged in practices such as insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. Product liability claims may attract negative publicity which may adversely affect our reputation and business. We are committed to maintaining a high technical and quality standard to ensure that the products meet the requirements in all aspects.

BUSINESS REVIEW *(continued)*

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option scheme and share award scheme to recognize and reward the contribution of the employees for the Group's operations and future development.

(ii) Suppliers

We have developed long-standing relationships with a number of suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Distributors

We sell our finished drug products mainly to distributors which will sell the products to end-user customers. We work closely with the distributors to ensure that we share the view for upholding our brand value and customer services.

(iv) Hospitals

We are committed to offer a broad and diverse range of good-quality products to hospitals. We also stay connected and maintain a close relationship with the hospitals by maintaining a database and have ongoing communications with them through various channels such as visits, marketing materials and meetings.

Environmental policies

We are subject to certain PRC laws, rules and regulations concerning environmental protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste and noise pollution during our manufacturing processes.

The Group attaches importance to comply with the relevant environmental laws and regulations. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to remedy the environmental issues identified and improve the environmental performance of the Group.

BUSINESS REVIEW *(continued)*

Compliance with laws and regulations

The Group's operations are mainly carried out by the Company's subsidiaries established in the mainland China and U.S. while the Company itself is incorporated in Hong Kong with its shares listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China, U.S. and Hong Kong. During the year ended 31 December 2019 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China, U.S. and Hong Kong that have a significant impact on the Group.

Recent Developments

Details of important events affecting the Group since 31 December 2019 are set out in the notes to the consolidated financial statements.

Further discussion and analysis of the business and operation of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections and the consolidated financial statements of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

At 31 December 2019, each of Mr. Cai Dongchen, Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Lu Hua and Dr. Li Chunlei, all being directors of the Company, had an indirect interest in one of the Group's five largest customers. All transactions between the Group and the customer concerned were carried out on normal commercial terms.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on page 52 and 53, respectively.

The Board has recommended the payment of a final dividend of HK20 cents per share for the year ended 31 December 2019 (2018: HK18 cents per share). Subject to approval by the shareholders in the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 3 July 2020 to the shareholders of the Company whose names appear on the register of members of the Company on 23 June 2020.

The Board has also proposed a bonus issue of one new share for every five existing shares held by shareholders of the Company whose names appear on the register of members of the Company on 23 June 2020, which is subject to shareholders' approval at the forthcoming annual general meeting of the Company. Details of this bonus issue will be disclosed in the circular to be published by the Company in due course.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2019 amounted to approximately RMB1,732,534,000 (2018: RMB1,305,178,000).

DONATIONS

During the year, the Group made charitable donations amounting to approximately RMB34,194,000.

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately RMB2,184,602,000. Details of the movements in fixed assets of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options (if any) of the Company are set out in notes 33 and 34 to the consolidated financial statements, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 169 of this annual report.

EQUITY-LINKED AGREEMENTS

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

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets and profit of the Company against all liability incurred by him as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance policy against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company.

Directors' Report

DIRECTORS

Directors of the Company

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

Executive directors:

Cai Dongchen *(Chairman and CEO)*

Zhang Cuilong *(Vice-Chairman and Rotating CEO)*

Wang Zhenguo

Pan Weidong

Wang Huaiyu

Lu Hua

Li Chunlei

Wang Qingxi

Chak Kin Man

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Chan Siu Keung, Leonard

Wang Bo

Lo Yuk Lam

Yu Jinming

Chen Chuan

In accordance with Article 101 of the Company's Articles of Association, Messrs. Wang Zhenguo, Wang Huaiyu, Lu Hua, Lee Ka Sze, Carmelo and Chen Chuan shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors of the subsidiaries of the Company

The directors of subsidiary undertakings included in the annual consolidated financial statements of the Company (other than those listed above) were Mr. Kotlarski Nicholas, Mr. Kwong Chi Wai King, Mr. Sun Jumin, Mr. Li Yingui, Mr. Min Longgang, Mr. Liu Jian, Mr. Yao Bing, Mr. Wei Qingjie, Mr. Kang Hui, Ms. Kang Yueju, Mr. Qu Buqing, Mr. Ji Mengwei, Mr. Liu Fang , Mr. Yuan Xichen, Mr. Zhang Jingshu, Mr. Zhao Shishuang, Mr. Han Feng, Mr. Wang Hui, Mr. Guo Yumin, Ms. Tian Yumiao, Mr. Geng Lixiao, Mr. Guo Shunxing, Mr. Xu Yimin, Mr. Lu Jianmin, Mr. Li Hongmin, Mr. Zhang Heming, Mr. Wang Wenben, Mr. Guo Junchen, Mr. Liu Qin, Mr. Chen Yingxin, Mr. Yuan Guoqiang, Mr. Pang Zhenhai, Mr. Yang Hanyu, Mr. Zhang Yongtai, Mr. Wang Yanbin, Mr. Wang Zhenyu, Mr. Zhang Ziren, Mr. Wang Yanjun, Mr. Wang Jinxu, Mr. Wang Hongbin, Mr. Hao Jinheng, Ms. Bi Sixin, Ms. Wang Tao, Mr. Lei Ming, Mr. Li Han, Mr. Zhao Shiqiang, Mr. Li Quan, Ms. Liang Qian, Mr. Yuan Qian, Mr. Zhou Hongfeng, Mr. Pengfei Zhou, Ms. Chen Sufen, Mr. Sun Haitao, Mr. Qin Maximilan Lu, Mr. Petar Vazharo, Mr. Bjartur Shen, Mr. Liu Cunyi, Ms. Liang Min, Mr. Huang Zheyan, Ms. Liu Liyun, Mr. Zheng Haiyuan, Mr. Hu Youhong, Mr. Xie Hua, Ms. Jia Jing, Mr. Chen Yao, Mr. Sun Minghui, Ms. Liu Haiying, Mr. Wang Yongjie, Mr. Song Liping, Mr. Gao Jiapan, Ms. Jiang Xin and Mr. Wang Yongming.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 66, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai is also the chairman of the Nomination Committee of the Company and a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

Mr. Cai is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Cai is also a director of True Ally Holdings Limited and Massive Giant Group Limited, both are substantial shareholders of the Company within the meaning of Part XV of the SFO.

ZHANG Cuilong

Mr. Zhang, aged 51, Vice-Chairman and Rotating Chief Executive Officer of the Company, was appointed as an executive director of the Company in 2018. Mr. Zhang is also a director of certain subsidiaries of the Group. Mr. Zhang holds a bachelor's degree in pharmacology from Hebei Medical College (now known as Hebei Medical University) and has extensive technical, marketing and management experience in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang, aged 50, was appointed as an executive director of the Company in 2012. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical, marketing and management experience in the pharmaceutical industry.

PAN Weidong

Mr. Pan, aged 50, was appointed as an executive director of the Company in 2006. Mr. Pan is also a director of certain subsidiaries of the Group. Mr. Pan holds an EMBA degree from Tsinghua University and has extensive finance, accounting and investment experience in the pharmaceutical industry.

Mr. Pan is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

WANG Huaiyu

Mr. Wang, aged 56, was appointed as an executive director of the Company in 2010. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LU Hua

Dr. Lu, aged 48, was appointed as an executive director of the Company in 2015. Dr. Lu is also a director of certain subsidiaries of the Group. Dr. Lu holds a bachelor's degree in science (chemistry) from Hebei Normal University, a master's degree in engineering (pharmaceutical manufacturing) from Beijing University of Chemical Technology, an EMBA degree from Tsinghua University and a doctorate in engineering (pharmaceutical manufacturing) from Tianjin University. Dr. Lu has extensive experience in pharmaceutical engineering, production management and technical research.

LI Chunlei

Dr. Li, aged 43, was appointed as an executive director of the Company in 2017. Dr. Li is currently the Chief Scientist of the Group in charge of research and development. Dr. Li is also the general manager of a subsidiary of the Company, deputy director of the Novel Pharmaceutical Preparations and Excipients State Key Laboratory and director of the Hebei Pharmaceutical Engineering Technology Centre. Dr. Li holds a bachelor's degree in engineering (biological pharmaceutics) from Jilin University and Shenyang Pharmaceutical University, a master's degree in science (microbial and biochemical pharmaceutics) from Jilin University and a doctorate in science (pharmaceutical science) from Shenyang Pharmaceutical University.

WANG Qingxi

Dr. Wang, aged 54, was appointed as an executive director of the Company in 2018. Dr. Wang is also a director of certain subsidiaries of the Group. Prior to joining the Group, Dr. Wang worked at Merck & Co., Inc. in the U.S. for 20 years where he held senior positions including director of pharmaceutical R&D and director of business development and operation. Dr. Wang holds a bachelor's degree in science (chemistry) and a master's degree in science (chemistry) from Nankai University in China, a master's degree in science (polymer science) and a doctorate in chemistry from University of Connecticut in the U.S. and a MBA degree from Temple University in the U.S..

CHAK Kin Man

Mr. Chak, aged 54, was appointed as an executive director of the Company in 2005. Mr. Chak is also a director of certain subsidiaries of the Group. Mr. Chak is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chak holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relations.

Mr. Chak is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LEE Ka Sze, Carmelo

Mr. Lee, aged 59, was appointed as a non-executive director in 1996, re-designated as an independent non-executive director in 1998 and further re-designated as a non-executive director in 2004. Mr. Lee is also a member of the Audit Committee and Remuneration Committee and the Company Secretary of the Company. Mr. Lee holds a bachelor of laws degree from The University of Hong Kong. Mr. Lee is a practising solicitor and a partner of Woo, Kwan, Lee & Lo.

Mr. Lee is also a non-executive director of Safety Godown Company Limited and Playmates Holdings Limited (appointed on 5 November 2019) and an independent non-executive director of KWG Property Holding Limited, Esprit Holdings Limited and China Pacific Insurance (Group) Co., Ltd.. Mr. Lee resigned as a non-executive director of Yugang International Limited and Hopewell Holdings Limited on 30 April 2019 and 3 May 2019 respectively and retired as a non-executive director of Termbray Industries International (Holdings) Limited on 13 September 2019. All of the above companies are listed on the Stock Exchange of Hong Kong Limited.

Mr. Lee is a chairman of the Listing Review Committee of The Stock Exchange of Hong Kong Limited, a convenor cum member of the Financial Reporting Review Panel of the Financial Reporting Council, a chairman of the Appeal Tribunal Panel Constituted under the Building Ordinance and a member of the InnoHK Steering Committee.

CHAN Siu Keung, Leonard

Mr. Chan, aged 62, was appointed as an independent non-executive director of the Company in 2004. Mr. Chan is also the chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Chan is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. Mr. Chan holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

WANG Bo

Mr. Wang, aged 59, was appointed as an independent non-executive director of the Company in 2012. He is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. Wang is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd.. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. Mr. Wang is currently the distinguished researcher of the Research Center of National Drug Policy & Ecosystem.

Mr. Wang is also an independent director of Henan Taloph Pharmaceutical Stock Co., Ltd. (listed on Shanghai Stock Exchange) and Jiuzhitang Co., Ltd. (listed on Shenzhen Stock Exchange).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LO Yuk Lam

Prof. Lo, aged 71, was appointed as an independent non-executive director of the Company in 2014. He is also a member of the Nomination Committee of the Company. Prof. Lo is currently the Chairman of the Advisory Council on Food and Environmental Hygiene of the Food and Health Bureau of the HKSAR Government, Founding President of HK Bio-Med Innotech Association, Honorary Founding Chairman of Hong Kong Biotechnology Organization, Honorary Chairman of Hong Kong Food Safety Association and a Committee Member of the Chinese Manufacturers' Association of Hong Kong.

Prof. Lo is an Honorary Fellow of the Hong Kong University of Science and Technology, Adjunct Professor of the Chinese University of Hong Kong and Honorary Professor of several universities in China.

Prof. Lo was heavily involved in several committees of the HKSAR Government. He had been appointed as Director of the Hong Kong Applied R&D Fund Co. Ltd., Chairman of the Biotechnology Committee of the Hong Kong Industry & Technology Development Council, and Chairman of Biotechnology Projects Vetting Committee of the Innovation and Technology Fund.

In China, Prof. Lo is a Member of Chinese People's Political Consultative Conference in Jilin province. He was also a Consultant of the Centre for Disease Control and Prevention of China.

Prof. Lo is also an Independent non-executive director of Luye Pharma Group Limited (listed on The Stock Exchange of Hong Kong Limited), an independent director of Sinovac Biotech Limited (listed on NASDAQ), Chairman of GT Healthcare Capital Partners, and Partner & Investment Committee Member of Hongsen Investment Management Ltd.

YU Jinming

Dr. Yu, aged 62, was appointed as an independent non-executive director of the Company in 2014. Dr. Yu is an Academician of Chinese Academy of Engineering, and is currently the Honorary President of Shandong Academy of Medical Sciences and the President of Shandong Cancer Hospital. Dr. Yu holds a bachelor's degree in medicine from Changwei Medical College and a doctorate in radiology from Shandong University.

CHEN Chuan

Mr. Chen, aged 56, was appointed as an independent non-executive director of the Company in 2016. Mr. Chen holds a bachelor's degree in Medicine from Norman Bethune University of Medical Science and a Master's degree in Science from Albert Einstein College of Medicine at Yeshiva University.

Mr. Chen is also a director of Beijing Dong Fang Ming Kang Medical Equipment Co., Ltd. (quoted on the National Equities Exchange and Quotations System), a director of Shanghai Benemae Pharmaceutical Corporation (quoted on the National Equities Exchange and Quotations System) and an independent director of Guangxi Liuzhou Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange).

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the connected transactions and continuing connected transactions of the Group during the year are set out in the section headed "Connected Transactions and Continuing Connected Transactions".

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	87,538,000	
	Interest of controlled corporation	1,356,619,120 *(Note)*	
		1,444,157,120	23.16%
Chak Kin Man	Beneficial owner	4,000	0.00006%

Note: Mr. Cai Dongchen is deemed to be interested in 1,356,619,120 shares, comprising (i) 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 493,880,000 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 14,000,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) （北京中宜和合眾投資管理中心（有限合夥））("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2019.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme and share award scheme disclosed below, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held		Percentage of shares in issue of the Company
Cai Dongchen	Beneficial owner	87,538,000		
	Interest in controlled corporation	1,356,619,120	*(Note)*	
		1,444,157,120		23.16%
True Ally Holdings Limited	Beneficial owner	493,880,000		
	Interest in controlled corporation	862,739,120	*(Note)*	
		1,356,619,120		21.75%
Massive Giant Group Limited	Beneficial owner	634,809,620		10.18%
Common Success International Limited	Beneficial owner	423,206,414		6.79%
Citigroup Inc.	Person having a security interest in shares	12,805,575		
	Interest in controlled corporation	28,630,040		
	Approved lending agents	401,014,487		
		442,450,102		7.09%

Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
Citigroup Inc.	Interest in controlled corporation	484,713	0.0078%

Note: Mr. Cai Dongchen is deemed to be interested in 1,356,619,120 shares, comprising (i) 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 493,880,000 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 14,000,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) （北京中宜和合眾投資管理中心（有限合夥））("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group has entered into certain transactions which constituted connected transactions and/or continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Connected Transaction

On 25 June 2019, Hebei Children's Hospital of Integrated Traditional Chinese and Western Medicine, CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd ("Zhongnuo') and CSPC Ouyi Pharmaceutical Co. Ltd. ("Ouyi") entered into a lease agreement with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2019 with an aggregate rental of RMB21,241,300 per annum. Details of the transaction are set out in the announcement of the Company dated 25 June 2019. During the year ended 31 December 2019, a rental of RMB10,621,000 was paid.

Continuing Connected Transactions

Name of company	Nature of transactions	Transaction amount *RMB'000*
CHL and its subsidiaries (the "CHL Group")	Sales of pharmaceutical products *(note a)*	490,228
	Rental *(note b)*	1,657
	Rental *(note c)*	8,884
	Rental *(note d)*	57,240
	Purchase of steam *(note e)*	14,301
	Purchase of steam *(note f)*	13,282

Notes:

(a) On 1 November 2018, the Company entered into a master sales agreement with CHL, pursuant to which the Company agreed to supply and to procure its subsidiaries to supply pharmaceutical products to the CHL Group for a terms of three years commencing on 1 November 2018. On 9 December 2019, the Company entered into a supplemental agreement within CHL to amend the master sales agreement by revising the annual cap. Details of the transaction are set out in the announcement of the Company dated 9 December 2019.

(b) On 20 July 2002, Zhongnuo entered into a lease agreement with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental remained unchanged at RMB138,033 upon review on 1 August 2017.

(c) On 27 June 2016, Zhongnuo and Ouyi entered into lease agreements with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2016 with an aggregate rental of RMB18,379,900 per annum. The lease agreements have expired on 24 June 2019.

(d) On 21 December 2018, CSPC NBP Pharmaceutical Co. Ltd., Ouyi, Zhongnuo and CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd., entered into a lease agreement with CHL to lease certain premises in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 1 January 2019 with an aggregate rental of RMB57,240,000 per annum.

(e) On 29 August 2017, CSPC Innovation Pharmaceutical Co. Ltd. ("XNW") entered into a steam supply agreement with Hebei Hongyuan Re Dian Limited Liability Company ("Hongyuan") for the purchase of steam from Hongyuan for a term of three years commencing on 29 August 2017.

(f) On 13 June 2016, Hebei Shengxue Glucose Limited Liability Company ("Shengxue") entered into a steam supply agreement with Hongyuan for the purchase of steam from Hongyuan for a term of three years commencing on 13 June 2016. On 12 July 2019, the agreement was renewed for a term of three years commencing on 13 June 2019. Details of the transaction are set out in the announcement of the Company dated 12 July 2019.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in CHL through a series of corporations. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. In addition, each of Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Lu Hua and Dr. Li Chunlei all being directors of the Company, is also indirectly interested in CHL.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to carry out assurance procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

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

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

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

RELATED PARTY TRANSACTIONS

Significant related party transactions which were undertaken in the normal course of business are set out in note 41 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) but are not disclosed in the section headed "Connected transactions and continuing connected transactions" under the Listing Rules, they are exempt from reporting, annual review and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

INTERESTS IN COMPETITOR

CHL holds certain equity interest in CSPC Jiangxi Jinfurong Pharmaceutical Co., Ltd, a company principally engaged in the manufacture and sales of traditional Chinese medicines in the PRC and which may compete with the Group in certain aspects of its business.

Each of Mr. Cai Dongchen, Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Lu Hua and Dr. Li Chunlei all being directors of the Company, had an indirect interest in CHL.

Directors' Report

LONG TERM INCENTIVE PROGRAM

Particulars of the Company's share option scheme and share award scheme are set out in note 34 to the consolidated financial statements.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2019.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
CAI Dongchen
Chairman

Hong Kong, 30 March 2020

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 168, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "HKICPA") and have been properly prepared in compliance with 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2019, the Group's net trade receivables amounting to approximately RMB2,258,844,000, which represented approximately 9% of total assets of the Group and out of these trade receivables of approximately RMB134,256,000 were past due. As disclosed in note 39 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables with significant outstanding balances are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 39 to the consolidated financial statements, the Group's lifetime ECL recognised on trade receivables as at 31 December 2019 amounted to approximately RMB14,686,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2019, including their identification of significant outstanding and credit-impaired balances, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 20 and 39 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of other intangible assets	
We identified the impairment assessment of other intangible assets as a key audit matter due to significant judgment required by the management in the assessment. The impairment assessment of other intangible assets is determined by comparing the carrying amounts with the recoverable amounts which are estimated with reference to the value in use calculation based on the cash flow forecast prepared by management. The impairment model is sensitive to changes in the key assumptions including growth rates, gross margin, discount rates and the forecast performance based on management's view of future business prospects. As at 31 December 2019, the carrying value of other intangible assets was approximately RMB1,135,662,000. Details relating to the Group's intangible assets are set out in note 16 to the consolidated financial statements.	Our procedures in relation to impairment assessment of other intangible assets included: • Understanding key controls and evaluating the basis of how the management reviews carrying amounts of its other intangible assets with finite useful lives to determine whether there is any indication of impairment, and the preparation of value in use calculation for intangible assets that are not yet available for use or intangible assets with finite useful life that have impairment indication; • Checking the mathematical accuracy of the value in use calculation; • Challenging the reasonableness of the key assumptions including growth rates and gross margin, by referring to the industry information and the management budget; • Assessing the key factors in determining the discount rate and comparing to discount rate adopted in the industry for reasonableness; and • Evaluating the sensitivity analysis prepared by the management on the growth rates, gross margin and discount rate to assess the extent of impact on the value in use calculation.

Key audit matter	How our audit addressed the key audit matter
Provision for inventories	
We identified the provision for inventories as a key audit matter due to the magnitude of the inventories and the significant judgement and estimates with respect to the net realisable value of inventories. As detailed in note 4 to the consolidated financial statements, the Group estimates the provision for inventory based on the ageing of the inventories to identify slow-moving and obsolete inventories. Provision for inventories will be made for an item of inventory which has a net realisable value lower than its carrying amount. At 31 December 2019, the carrying amount of inventories is RMB2,535,743,000 (net of provision for inventories of RMB5,900,000).	Our procedures in relation to the estimated provision for inventories included: • Understanding key controls and evaluating the basis of how slow-moving or obsolete inventories are identified by the management and their assessment of the net realisable value of inventories; • Identifying and assessing aged and obsolete inventories when attending physical inventory counts; • Testing the accuracy of the inventory ageing and assessing whether allowance is properly provided for aged inventories or inventories close to expiry dates; • Testing the net realisable values of the inventories by reference to current and subsequent selling price and assessing whether allowance is properly provided for if required; and • Performing retrospective review of the accuracy of management judgements and assumptions relating to the provision for inventories made in the prior year.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Au Chun Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Revenue	5	**22,103,192**	17,716,540
Cost of sales		**(6,192,211)**	(5,979,187)
Gross profit		**15,910,981**	11,737,353
Other income		**243,783**	139,742
Other gains or losses		**48,450**	155,195
Selling and distribution expenses		**(8,712,083)**	(6,184,505)
Administrative expenses		**(748,509)**	(656,597)
Research and development expenses		**(2,000,426)**	(1,342,101)
Other expenses		**(142,015)**	(26,125)
Operating profit		**4,600,181**	3,822,962
Finance costs	6	**(32,426)**	(74,337)
Share of results of joint ventures	17B	**58,407**	43,554
Profit before tax		**4,626,162**	3,792,179
Income tax expense	8	**(892,810)**	(733,760)
Profit for the year	7	**3,733,352**	3,058,419
Profit for the year attributable to:			
Owners of the Company		**3,714,106**	3,080,802
Non-controlling interests		**19,246**	(22,383)
		3,733,352	3,058,419
		RMB cents	RMB cents (Restated)
Earnings per share			
Basic	11	**59.65**	49.36
Diluted	11	**59.64**	N/A

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**3,733,352**	3,058,419
Other comprehensive income (expense):		
Item that will not be reclassified to profit or loss:		
Fair value gain on investments in financial assets measured at fair value through other comprehensive income	**184,227**	51,765
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(24,503)**	(2,463)
Other comprehensive income for the year, net of income tax	**159,724**	49,302
Total comprehensive income for the year	**3,893,076**	3,107,721
Total comprehensive income attributable to:		
Owners of the Company	**3,873,830**	3,130,104
Non-controlling interests	**19,246**	(22,383)
	3,893,076	3,107,721

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000 (Restated)	As at 1 January 2018 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	13	**8,459,176**	6,692,220	5,548,993
Right-of-use assets	14A	**823,202**	—	—
Prepaid lease payments	14B	**—**	526,903	479,095
Goodwill	15	**188,964**	140,752	101,771
Other intangible assets	16	**1,135,662**	806,986	86,254
Interest in an associate	17A	**231,135**	—	—
Interests in joint ventures	17B	**176,639**	126,279	91,942
Financial assets measured at fair value through other comprehensive income	18	**1,077,932**	672,263	264,796
Amount due from a joint venture	41	**150,432**	—	—
Deferred tax assets	31	**34,843**	18,946	17,323
Deposits and prepayments	21	**343,380**	329,000	—
Bank deposits	24	**—**	100,000	—
		12,621,365	9,413,349	6,590,174
Current assets				
Inventories	19	**2,535,743**	3,045,318	2,425,053
Trade receivables	20	**2,258,844**	2,064,925	1,546,942
Deposits, prepayments and other receivables	21	**567,252**	481,087	404,516
Bills receivables	22	**1,993,083**	1,296,364	1,234,773
Trade receivables due from related companies	41	**140,183**	63,443	58,132
Amounts due from joint ventures	41	**58,628**	204,450	231,430
Prepaid lease payments	14B	**—**	16,570	15,268
Other financial assets		**536**	443	612
Structured bank deposits	23	**1,838,159**	2,292,366	1,100,000
Restricted bank deposits	24	**186,293**	2,909	2,909
Bank balances and cash	24	**4,118,236**	4,335,613	4,378,996
		13,696,957	13,803,488	11,398,631

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000 (Restated)	As at 1 January 2018 RMB'000 (Restated)
Current liabilities				
Trade payables	25	**1,110,883**	1,619,356	1,241,765
Other payables	26	**3,691,652**	2,920,262	2,531,423
Contract liabilities	29	**503,755**	700,075	—
Bills payables	27	**316,137**	1,654,470	50,000
Contingent consideration payable	39c	**18,130**	12,375	—
Amount due to a joint venture	41	**104,678**	—	7,791
Amounts due to related companies	41	**10,854**	28,425	36,298
Amount due to an associate	41	**124,627**	—	—
Lease liabilities	30	**74,235**	—	—
Tax liabilities		**258,823**	241,465	172,789
Borrowings	28	**23,000**	70,589	775,208
		6,236,774	7,247,017	4,815,274
Net current assets		**7,460,183**	6,556,471	6,583,357
Total assets less current liabilities		**20,081,548**	15,969,820	13,173,531
Non-current liabilities				
Other payables	26	**154,733**	182,404	153,804
Contingent consideration payable	39c	**13,923**	19,899	—
Lease liabilities	30	**90,300**	—	—
Deferred tax liabilities	31	**304,427**	237,917	110,019
Borrowings	28	**—**	—	50,000
		563,383	440,220	313,823
Net assets		**19,518,165**	15,529,600	12,859,708

Consolidated Statement of Financial Position

At 31 December 2019

	Note	**As at 31 December 2019** **RMB'000**	As at 31 December 2018 *RMB'000* (Restated)	As at 1 January 2018 *RMB'000* (Restated)
Capital and reserves				
Share capital	*33*	**10,899,412**	10,899,412	10,899,412
Reserves		**7,562,311**	4,152,848	1,889,243
Equity attributable to owners of the Company		**18,461,723**	15,052,260	12,788,655
Non-controlling interests		**1,056,442**	477,340	71,053
Total equity		**19,518,165**	15,529,600	12,859,708

The consolidated financial statements on pages 52 to 168 were approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Equity attributable to owners of the Company											
	Share capital RMB'000	Treasury share reserve RMB'000	Share awards reserve RMB'000	Other reserve RMB'000 (note a)	Statutory reserves RMB'000 (note b)	Capital contribution reserve RMB'000 (note c)	Investments revaluation reserve RMB'000	Translation reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018 (Restated)	10,899,412	–	–	(4,689,903)	861,920	46,794	2,655	60	5,667,717	12,788,655	71,053	12,859,708
Profit for the year	–	–	–	–	–	–	–	–	3,080,802	3,080,802	(22,383)	3,058,419
Other comprehensive income for the year	–	–	–	–	–	–	51,765	(2,463)	–	49,302	–	49,302
Total comprehensive income for the year	–	–	–	–	–	–	51,765	(2,463)	3,080,802	3,130,104	(22,383)	3,107,721
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(2,000)	(2,000)
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	–	(782,875)	(782,875)	–	(782,875)
Transfer to statutory reserves	–	–	–	–	251,023	–	–	–	(251,023)	–	–	–
Acquisition of subsidiaries *(note 35A)*	–	–	–	–	–	–	–	–	–	–	427,670	427,670
Non-controlling interest arising from incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	–	3,000	3,000
Disposal of investments in equity investments at fair value through other comprehensive income	–	–	–	–	–	–	(997)	–	997	–	–	–
Repurchase of ordinary shares *(note 33)*	–	–	–	–	–	–	–	–	(83,433)	(83,433)	–	(83,433)
Transaction costs attributable to repurchase of ordinary shares	–	–	–	–	–	–	–	–	(191)	(191)	–	(191)
At 31 December 2018 and 1 January 2019 (Restated)	**10,899,412**	**–**	**–**	**(4,689,903)**	**1,112,943**	**46,794**	**53,423**	**(2,403)**	**7,631,994**	**15,052,260**	**477,340**	**15,529,600**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,714,106**	**3,714,106**	**19,246**	**3,733,352**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**184,227**	**(24,503)**	**–**	**159,724**	**–**	**159,724**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**184,227**	**(24,503)**	**3,714,106**	**3,873,830**	**19,246**	**3,893,076**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,910)**	**(2,910)**
Dividends recognised as distribution *(note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(965,385)**	**(965,385)**	**–**	**(965,385)**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**676,369**	**–**	**–**	**–**	**(676,369)**	**–**	**–**	**–**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,360**	**15,360**
Disposal of investments in equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**(516)**	**–**	**516**	**–**	**–**	**–**
Recognition of equity-settled share based payments	**–**	**–**	**6,721**	**–**	**–**	**–**	**–**	**–**	**–**	**6,721**	**–**	**6,721**
Purchase of shares under share award scheme *(note d)*	**–**	**(100,706)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(100,706)**	**–**	**(100,706)**
Dilution of interest in a subsidiary *(note e)*	**–**	**–**	**–**	**595,003**	**–**	**–**	**–**	**–**	**–**	**595,003**	**547,406**	**1,142,409**
At 31 December 2019	**10,899,412**	**(100,706)**	**6,721**	**(4,094,900)**	**1,789,312**	**46,794**	**237,134**	**(26,906)**	**9,704,862**	**18,461,723**	**1,056,442**	**19,518,165**

Notes:

(a) The balance in other reserve mainly included an amount of RMB4,030,633,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of RMB2,631,198,000 and the fair value of the consideration paid by the Company of RMB6,661,831,000 in the reverse acquisition on 29 October 2012.

(b) The statutory reserves were appropriated from profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(c) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 41, which comprise 1) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under Robust Sun Group in 2012; 2) the imputed interest arising on a non-interest bearing loan from CHL in 2012; and (3) deemed capital contribution of approximately RMB11,879,000 arising from the acquisition of CSPC Shengxue Glucose Co., Ltd. from CHL in 2016.

(d) The Company purchased its own ordinary shares of an aggregate of 10,000,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in January 2019 through BOCI-Prudential Trustee Limited (the "Trustee") and all the shares were held by the Trustee. Details are set out in note 34(b)

(e) CSPC Innovation Pharmaceutical Co., Ltd. ("CSPC XNW"), an indirect wholly-owned subsidiary of the Company as at 31 December 2018, listed its shares on the Shenzhen Stock Exchange with effect from 22 March 2019. On the same date, 50,000,000 ordinary shares of CSPC XNW with a par value of RMB1.00 each were issued by way of public offering and placing (the "Share Offer") and the net proceeds received by CSPC XNW, after deducting the expenses relating to the Share Offer, was RMB1,142,409,000. The Group's percentage of equity interest in CSPC XNW and its subsidiaries (collectively referred to as the "XNW Group") was then diluted from 100% to 75% upon completion of the Share Offer. The difference between the share of net assets of XNW Group by the non-controlling interests and the net proceeds from the Share Offer of RMB595,003,000 was recognised in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000 (Restated)
OPERATING ACTIVITIES		
Profit before tax	**4,626,162**	3,792,179
Adjustments for:		
Amortisation of other intangible assets	**17,954**	20,142
Amortisation of prepaid lease payments	**—**	15,700
Depreciation of property, plant and equipment	**587,892**	594,006
Depreciation of right-of-use assets	**85,749**	—
Finance costs	**32,426**	74,337
Government grant income	**(135,748)**	(29,107)
(Gain) loss on fair value change of other financial assets	**(93)**	169
Interest income	**(64,740)**	(53,070)
Fair value changes on structured bank deposits	**(84,371)**	(112,440)
Fair value changes on contingent consideration payable	**12,728**	—
Loss on disposal of property, plant and equipment	**15,161**	16,020
Loss on disposal of right-of-use assets	**1,708**	—
Impairment loss on trade receivables	**2,625**	12,475
Impairment loss on amount due from a joint venture	**10,767**	—
Reversal of impairment loss of trade receivables	**—**	(11,692)
Loss on deemed disposal of partial interest in a joint venture	**17,235**	—
Share of results of joint ventures	**(58,407)**	(43,554)
Share-based payments	**6,721**	—
Gain on disposal of subsidiaries	**(5,807)**	—
Impairment of prepayment for acquisition of intangible assets	**100,000**	—
Operating cash flows before movements in working capital	**5,167,962**	4,275,165
Increase in bills payables	**166,250**	99,887
Increase in bills receivables	**(696,719)**	(61,244)
(Decrease) increase in trade payables	**(511,866)**	369,668
Increase in trade receivables	**(196,742)**	(514,351)
(Decrease) increase in contract liabilities	**(196,320)**	144,607
Increase in deposits, prepayments and other receivables	**(82,378)**	(3,951)
Increase in trade receivables due from related companies	**(76,740)**	(5,311)
Decrease (increase) in inventories	**509,315**	(614,031)
Increase in other payables	**360,498**	743,504
Increase in government grants	**135,213**	79,552
Increase (decrease) in amount due to a joint venture	**104,678**	(7,791)
Cash generated from operations	**4,683,151**	4,505,704
Income tax paid	**(866,825)**	(636,074)
Interest paid	**(32,426)**	(74,337)
NET CASH FROM OPERATING ACTIVITIES	**3,783,900**	3,795,293

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000 (Restated)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,872,891)**	(1,666,331)
Placement of structured bank deposits		**(1,934,700)**	(3,295,884)
Acquisition of subsidiaries and assets	*35A*	**(507,635)**	(143,784)
Purchase of financial assets measured at fair value through other comprehensive income		**(313,492)**	(359,400)
Advances to joint ventures		**(185,278)**	(225,617)
Placement of restricted bank deposits		**(183,384)**	(6,148)
Deposits paid for right-of-use assets/prepaid lease payments		**(104,380)**	(229,000)
Purchase of right-of-use assets		**(69,419)**	—
Purchase of others intangible assets		**(65,982)**	(106,926)
Receipts of government grants related to acquisition of property, plant and equipment		**—**	36,591
Capital injection to an associate		**(31,435)**	—
Payment of contingent consideration		**(12,949)**	—
Deposit paid for acquisition of property, plant and equipment		**(10,000)**	—
Capital injection to a joint venture		**(109)**	—
Placement of bank deposits		**—**	(100,000)
Prepayment for acquisition of intangible assets		**—**	(100,000)
Prepaid lease payments paid		**—**	(54,600)
Repayment from joint ventures		**—**	262,597
Withdrawal of restricted bank deposits		**—**	6,148
Withdrawal of structured bank deposits		**2,473,278**	2,215,958
Repayment from joint ventures		**135,822**	—
Withdrawal of bank deposits		**100,000**	62,432
Interest received		**64,981**	56,958
Dividend received from a joint venture		**25,000**	—
Disposal of financial assets measured at fair value through other comprehensive income		**16,977**	3,698
Disposal of subsidiaries	*35B*	**10,275**	—
Proceeds on disposal of property, plant and equipment		**8,128**	15,437
NET CASH USED IN INVESTING ACTIVITIES		**(2,457,193)**	(3,627,871)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
FINANCING ACTIVITIES		
Settlement of bill payables	**(1,504,583)**	—
Dividends paid	**(965,385)**	(782,875)
Purchase of shares under the share award scheme	**(100,706)**	—
Listing expenses from the share offer of CSPC XNW	**(81,091)**	—
Repayment of borrowings	**(70,589)**	(801,708)
Payment of lease liabilities	**(64,564)**	—
Repayment to related companies	**(17,571)**	(16,924)
Dividends paid to non-controlling interests	**(2,910)**	(2,000)
Shares repurchased	**—**	(83,433)
Expenses on shares repurchase	**—**	(191)
Proceeds from discounted bills	**—**	1,504,583
Advances from related companies	**—**	9,051
Proceeds from the share offer of CSPC XNW	**1,223,500**	—
New borrowings raised	**23,000**	19,110
Capital contribution from non-controlling interests	**15,360**	3,000
NET CASH USED IN FINANCING ACTIVITIES	**(1,545,539)**	(151,387)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(218,832)**	16,035
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**4,335,613**	4,316,564
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,455**	3,014
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**4,118,236**	4,335,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

CSPC Pharmaceutical Group Limited ("The Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries (hereinafter together with the Company collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 43.

The functional currency of the Company is Renminbi ("RMB"). The presentation currency of the consolidated financial statements in prior financial years was Hong Kong dollars ("HK$"). In view of the fact that the Group's operation is mainly located in the PRC with transactions mainly denominated in RMB, the directors of the Company (the "Directors") consider that it is more appropriate to use RMB as the presentation currency in presenting the financial performance and financial positions of the Group effective from 1 January 2019, and the comparative information has been restated to reflect the change in presentation currency to RMB accordingly. The Group has also presented the consolidated statement of financial position as at 1 January 2018 without related notes.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 Leases *(continued)*

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) — Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 Leases *(continued)*

As a lessee *(continued)*

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.35%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018 (Restated)	213,907
Less: Commitment of lease which commenced after 1 January 2019	(9,584)
	204,323
Lease liabilities discounted at relevant incremental borrowing rates	189,659
Less: Recognition exemption — short-term leases	(9,155)
Lease liabilities as at 1 January 2019	180,504
Analysed as:	
Current	55,850
Non-current	124,654
	180,504

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 Leases *(continued)*

As a lessee *(continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		180,504
Reclassified from prepaid lease payments	*(a)*	543,473
		723,977

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2018 *RMB'000* (Restated)	Adjustments *RMB'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *RMB'000*
Non-current Assets				
Prepaid lease payments	(a)	526,903	(526,903)	–
Right-of-use assets		–	723,977	723,977
Current Assets				
Prepaid lease payments	(a)	16,570	(16,570)	–
Current Liabilities				
Lease liabilities		–	(55,850)	(55,850)
Non-current Liabilities				
Lease liabilities		–	(124,654)	(124,654)

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 Leases *(continued)*

As a lessee *(continued)*

Notes:

(a) Upfront payments for leasehold lands in the PRC for own-used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments, amounting to RMB16,570,000 and RMB526,903,000 respectively, were reclassified to right-of-use assets.

(b) For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the revised Conceptual Framework for Financial Reporting mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

New and amendments to HKFRSs in issue but not yet effective *(continued)*

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment* ("HKFRS 2"), leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets* ("HKAS 36").

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;

- is exposed, or has the rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

Business combinations

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

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

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

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

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustment depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units ("CGU"s) (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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

Investments in an associate and joint ventures

An associate is an entity over which the Group has 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associate and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associate and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in an associate or joint ventures *(continued)*

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

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

Revenue from contracts with customers

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers *(continued)*

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

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

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

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(continued)*

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

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

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(continued)*

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building (prior to 1 January 2019)

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Leasehold land and building (prior to 1 January 2019) *(continued)*

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease terms on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associate or joint ventures.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The change in presentation currency of the Company was applied retrospectively, as if the new presentation currency had always been applied.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

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

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

When shares granted are vested, the amount previously recognised in share awards reserve will be transferred to share capital.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

Property, plant and equipment

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

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

Ownership interests in leasehold land and building

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets not yet available for use that are acquired separately are not amortised but tested individually for impairment annually and carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination not yet available for use or with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

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

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

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

In addition, corporate assets are allocated to individual CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Inventories

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

Provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

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

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

(ii) Equity instruments designated as at FVTOCI *(continued)*

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

(iii) Financial assets at FVTPL

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

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

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, deposits and other receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, bank deposits, restricted bank deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables and trade receivables due from related companies. The ECL on these assets are assessed individually for trade receivables with significant balances and credit-impaired and collectively using a provision matrix for remaining balances based on common credit risk characteristics and past due analysis.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

- Nature of financial instruments (i.e. the Group's bills receivables, bank deposits, restricted bank deposits and bank balances are each assessed as a separate group. Trade receivables with significant balances and credit-impaired, trade receivables due from related companies and amounts due from joint ventures are assessed for ECL on an individual basis. ECL for remaining trade receivables are assessed collectively using a provision matrix based on common credit risk characteristics and past due analysis.);

- Past-due status;

- Nature, size and industry of trade receivables; and

- External credit ratings where available.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration of an acquirer in a business combination to which HKFRS 3 applies.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables, bills payables, amount due to a joint venture, amounts due to related companies, amount due to an associate and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Control over YZY Biopharma

Note 35A describes that YZY Biopharma (as defined in note 35A) is a subsidiary of the Group although the Group has only 39.56% ownership interest and voting rights in YZY Biopharma.

The Directors assessed whether or not the Group has control over YZY Biopharma based on whether the Group has the practical ability to direct the relevant activities of YZY Biopharma unilaterally. As a result of a contractual arrangement with certain shareholders of YZY Biopharma, the Group is given the power to control the majority of the votes in shareholders' and board of directors' meetings of YZY Biopharma that direct the relevant activities of YZY Biopharma. After assessment, the Directors concluded that the Group has control over YZY Biopharma.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

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

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the historical default rates of trade receivables and takes into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 39.

Impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill was RMB188,964,000 (2018: RMB140,752,000) and details of the recoverable amount calculation are disclosed in note 15.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Impairment assessment of other intangible assets

Intangible assets in use are stated at cost less accumulated amortisation and impairment, if any. For intangible assets not yet available for use, the Group would assess the assets individually for impairment annually. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of intangible assets are RMB1,135,662,000 (2018: RMB806,986,000) respectively. Details of the assessment of impairment of intangible assets not yet available for use are disclosed in Note 16.

Estimated provision for inventories

Inventories are valued at the lower of cost and net realisable value. The Group regularly inspects and reviews the ageing of the inventories to identify slow-moving and obsolete inventories. When the Group identifies an item of inventory which has a net realisable value lower than its carrying amount or is slow-moving or obsolete, the Group would write down that inventory in that year. As at 31 December 2019, the carrying amount of inventories was RMB2,535,743,000 (2018: RMB3,045,318,000), net of provision for inventories of RMB5,900,000 (2018: RMB5,900,000).

Fair value measurement of financial instruments

As at 31 December 2019, unquoted equity instruments amounting to RMB1,035,812,000 (2018: RMB606,002,000) were measured at fair values determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 39c for further disclosures.

5. REVENUE AND SEGMENT INFORMATION

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Sale of goods	**22,103,192**	17,716,540

Information reported to executive directors, being collectively the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 Operating Segments are as follows:

(a) Finished drugs — research and development, manufacture and sale of pharmaceutical products;

(b) Vitamin C — manufacture and sale of vitamin C products in bulk form;

(c) Antibiotics — manufacture and sale of antibiotic products in bulk form; and

(d) Others — manufacture and sale of functional food products (including caffeine additives and vitamin supplements), glucose products and provision of healthcare services

Vitamin supplements are included as functional food products in the segment of others for the current year, while they were included in the segment of finished drugs in prior years. The comparative information has been restated to conform with current year's presentation.

Revenue is recognised at a point of time upon control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

As at 31 December 2019, all outstanding sales contracts are expected to be fulfilled within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2019

	Finished drugs	Vitamin C	Antibiotics	Others	Segment total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	17,937,001	1,921,704	878,921	1,365,566	22,103,192	–	22,103,192
Inter-segment sales	–	5,446	119,483	7,051	131,980	(131,980)	–
TOTAL REVENUE	17,937,001	1,927,150	998,404	1,372,617	22,235,172	(131,980)	22,103,192
SEGMENT PROFIT	3,943,808	391,271	4,103	263,991	4,603,173		4,603,173
Unallocated income							149,111
Unallocated expenses							(152,103)
Operating profit							4,600,181
Finance costs							(32,426)
Share of results of joint ventures							58,407
Profit before tax							4,626,162

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2018 (Restated)

	Finished drugs	Vitamin C	Antibiotics	Others	Segment total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	13,503,386	1,783,510	1,086,725	1,342,919	17,716,540	–	17,716,540
Inter-segment sales	–	11,775	90,574	6,486	108,835	(108,835)	–
TOTAL REVENUE	13,503,386	1,795,285	1,177,299	1,349,405	17,825,375	(108,835)	17,716,540
SEGMENT PROFIT	2,815,148	679,928	32,593	267,791	3,795,460		3,795,460
Unallocated income							165,510
Unallocated expenses							(138,008)
Operating profit							3,822,962
Finance costs							(74,337)
Share of results of joint ventures							43,554
Profit before tax							3,792,179

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, finance costs, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities are not regularly provided to the CODM for review.

Other segment information

For the year ended 31 December 2019

	Finished drugs RMB'000	Vitamin C RMB'000	Antibiotics RMB'000	Others RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Depreciation and amortisation	**405,202**	**94,675**	**99,387**	**70,091**	**669,355**	**22,240**	**691,595**
Impairment of prepayment for acquisition of intangible assets	**100,000**	**–**	**–**	**–**	**100,000**	**–**	**100,000**

For the year ended 31 December 2018 (Restated)

	Finished drugs RMB'000	Vitamin C RMB'000	Antibiotics RMB'000	Others RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Depreciation and amortisation	311,905	135,850	110,040	35,208	593,003	21,145	614,148

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of customers:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
The PRC (country of domicile)	**18,897,453**	14,682,452
Other Asian regions	**1,045,038**	1,264,785
Americas	**974,937**	783,175
Europe	**1,093,405**	817,993
Others	**92,359**	168,135
	22,103,192	17,716,540

The Group's operations are substantially based in the PRC and substantially all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Interest on discounted bills receivables	**22,694**	45,464
Interest on lease liabilities	**7,739**	—
Interest on bank loans	**1,993**	28,684
Interest and loans from a related company	**—**	189
	32,426	74,337

7. PROFIT FOR THE YEAR

	2019 *RMB'000*	2018 *RMB'000* (Restated)
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration *(note 9)*		
— salaries, wages and other benefits	**1,912,253**	1,305,860
— contribution to retirement benefit schemes	**142,693**	127,416
— share-based payment expense	**6,721**	—
Total staff costs	**2,061,667**	1,433,276
Amortisation of other intangible assets	**17,954**	20,142
Depreciation of right-of-use assets	**85,749**	—
Depreciation of property, plant and equipment	**587,892**	594,006
Total depreciation and amortisation	**691,595**	614,148
Release of prepaid lease payments	**—**	15,700
Auditor's remuneration	**3,872**	3,427
Fair value changes on structured bank deposits (included in other gains or losses)	**(84,371)**	(112,440)
Government grant income (included in other income) *(note 32)*	**(135,748)**	(29,107)
Interest income on bank balances (included in other income)	**(64,740)**	(53,070)
Loss on disposal of property, plant and equipment (included in other gains or losses)	**15,161**	16,020
Net foreign exchange gain (included in other gains or losses)	**(18,563)**	(59,752)
Impairment of prepayment for acquisition of intangible assets (included in other expenses) *(note 21)*	**100,000**	—
Loss on deemed disposal of partial interest in a joint venture (included in other gains or losses)	**17,235**	—
Fair value change on contingent consideration payables. (included in other gains or losses)	**12,728**	—

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss for the years ended 31 December 2019 and 2018.

8. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000 (Restated)
Current taxation:		
— PRC Enterprise Income Tax ("PRC EIT")	**786,220**	628,345
— PRC withholding tax on dividends distributed by subsidiaries	**94,815**	67,535
— United States of America ("USA") Federal and State Income tax	**3,148**	8,870
	884,183	704,750
Deferred taxation *(note 31)*	**8,627**	29,010
	892,810	733,760

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2020.

The calculation of USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Profit before tax	**4,626,162**	3,792,179
Tax at the PRC EIT rate of 25% (2018: 25%)	**1,156,540**	948,045
Tax effect of expenses not deductible for tax purpose	**141,574**	149,866
Tax effect of share of results of joint ventures	**(14,602)**	(10,888)
Tax effect of tax losses not recognised	**107,605**	19,431
Effect of tax relief and concessions granted to certain PRC subsidiaries	**(628,857)**	(473,174)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(485)**	(1,219)
PRC withholding tax on dividends distribution by subsidiaries	**131,035**	101,699
Income tax expense for the year	**892,810**	733,760

Details of deferred taxation and unused tax losses are set out in note 31.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 15 (2018: 16) directors were as follows:

2019

	Executive directors									Non-executive director	Independent non-executive directors					
	Cai Dongchen RMB'000 (Chairman and Chief Executive)	Zhang Cuilong RMB'000	Wang Zhenguo RMB'000	Pan Weidong RMB'000	Wang Huaiyu RMB'000	Lu Hua RMB'000	Li Chunlei RMB'000	Wang Qingxi RMB'000	Chak Kin Man RMB'000	Lee Ka Sze, Carmelo RMB'000	Chan Siu Keung, Leonard RMB'000	Wang Bo RMB'000	Lo Yuk Lam RMB'000	Yu Jinming RMB'000	Chen Chuan RMB'000	Total RMB'000
Fees	53	53	53	53	53	53	53	53	53	334	238	106	106	88	106	1,455
Salaries and allowances	4,226	693	693	693	693	693	701	1,725	1,981	–	–	–	–	–	–	12,098
Performance-related bonuses	7,480	5,720	5,280	3,080	3,080	2,376	3,960	880	2,640	–	–	–	–	–	–	34,496
Contributions to retirement benefit schemes	390	61	64	80	64	64	65	77	183	–	–	–	–	–	–	1,048
Total emoluments	12,149	6,527	6,090	3,906	3,890	3,186	4,779	2,735	4,857	334	238	106	106	88	106	49,097

2018 (Restated)

	Executive directors										Non-executive director	Independent non-executive directors					
	Cai Dongchen RMB'000 (Chairman and Chief Executive)	Zhang Cuilong RMB'000 (note i)	Wang Zhenguo RMB'000	Pan Weidong RMB'000	Wang Huaiyu RMB'000	Lu Hua RMB'000	Li Chunlei RMB'000	Wang Qingxi RMB'000 (note ii)	Chak Kin Man RMB'000	Wang Jinxu RMB'000 (note iii)	Lee Ka Sze, Carmelo RMB'000	Chan Siu Keung, Leonard RMB'000	Wang Bo RMB'000	Lo Yuk Lam RMB'000	Yu Jinming RMB'000	Chen Chuan RMB'000	Total RMB'000
Fees	51	25	51	51	51	51	51	17	51	34	295	211	84	101	68	84	1,276
Salaries and allowances	4,053	298	660	639	636	630	635	425	1,900	442	–	–	–	–	–	–	10,318
Performance-related bonuses	7,174	3,310	2,966	2,931	2,794	2,800	3,283	981	2,321	1,593	–	–	–	–	–	–	30,153
Contributions to retirement benefit schemes	374	30	67	82	67	67	66	5	175	53	–	–	–	–	–	–	986
Total emoluments	11,652	3,663	3,744	3,703	3,548	3,548	4,035	1,428	4,447	2,122	295	211	84	101	68	84	42,733

Notes:

(i) Mr. Zhang Cuilong was appointed as executive director on 9 July 2018.

(ii) Dr. Wang Qingxi was appointed as executive director on 20 August 2018.

(iii) Dr. Wang Jinxu resigned as executive director on 30 August 2018.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The performance-related incentive payment is determined by the remuneration committee for both years having regard to the performance of the Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the Directors waived any emoluments in both years.

Mr. Cai Dongchen is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive. The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as the Directors.

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received market remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its fellow subsidiaries or subsidiaries was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group for the year ended 31 December 2019 are 5 (2018: 5) directors and the chief executive of the Company, details of their emoluments are set out in note 9 above.

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

11. EARNINGS PER SHARE

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

	2019 ***RMB'000***	2018 *RMB'000* (Restated)
Earnings for the purpose of basic and diluted earnings per share	**3,714,106**	3,080,802

11. EARNINGS PER SHARE *(continued)*

	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,226,545**	6,242,083
Effect of dilutive potential ordinary shares: Unvested shares under share award scheme	**917**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,227,462**	N/A

For the year ended 31 December 2019, the weighted average number of ordinary shares for the purpose of calculation of basic earnings per share has been adjusted for the effect of shares held by the Trustee pursuant to the share award scheme.

No diluted earnings per share is presented for the year ended 31 December 2018 as there was no potential ordinary shares in issue during the year.

12. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 Final, paid — HK18 cents (equivalent to RMB15.5 cents) (2018: 2017 Final, paid — HK15 cents (equivalent to RMB12.5 cents)) per share	**965,385**	782,875

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK20 cents (2018: final dividend in respect of the year ended 31 December 2018 of HK18 cents) per ordinary share, in an aggregate amount of approximately RMB1,122,541,000 (2018: RMB965,385,000), and a bonus issue of one new share for every five existing shares held by shareholders of the Company whose names appear on the register of members of the Company on 23 June 2020, have been proposed by the Directors and are subject to approval by the shareholders of the Company in the forthcoming general meeting.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2018 (Restated)	2,608,358	3,882,861	182,771	23,771	1,153,842	7,851,603
Exchange adjustments	1,647	1,288	(226)	31	137	2,877
Additions	174,320	159,540	18,690	4,804	1,330,629	1,687,983
Transfers	194,708	503,722	21,106	–	(719,536)	–
Acquisition of subsidiaries and assets *(note 35A)*	27,390	34,501	341	429	15,490	78,151
Disposals	(2,069)	(113,554)	(4,439)	(4,611)	–	(124,673)
At 31 December 2018 (Restated)	**3,004,354**	**4,468,358**	**218,243**	**24,424**	**1,780,562**	**9,495,941**
Exchange adjustments	**877**	**607**	**165**	**72**	**140**	**1,861**
Additions	**5,813**	**92,324**	**24,826**	**5,852**	**2,055,787**	**2,184,602**
Transfers	**686,252**	**1,360,393**	**69,263**	**–**	**(2,115,908)**	**–**
Acquisition of subsidiaries and assets *(note 35A)*	**–**	**7,784**	**40**	**454**	**187,765**	**196,043**
Disposals	**(21,087)**	**(95,000)**	**(4,061)**	**(4,871)**	**–**	**(125,019)**
Disposal of subsidiaries *(note 35B)*	**–**	**–**	**(559)**	**–**	**(3,588)**	**(4,147)**
At 31 December 2019	**3,676,209**	**5,834,466**	**307,917**	**25,931**	**1,904,758**	**11,749,281**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2018 (Restated)	654,759	1,524,732	105,553	17,566	–	2,302,610
Exchange adjustments	127	540	(316)	(29)	–	322
Provided for the year	169,899	401,423	18,838	3,846	–	594,006
Eliminated on disposals	(925)	(84,066)	(4,210)	(4,016)	–	(93,217)
At 31 December 2018 (Restated)	**823,860**	**1,842,629**	**119,865**	**17,367**	**–**	**2,803,721**
Exchange adjustments	**73**	**174**	**41**	**59**	**–**	**347**
Provided for the year	**139,243**	**413,417**	**30,854**	**4,378**	**–**	**587,892**
Eliminated on disposals	**(11,706)**	**(83,900)**	**(1,600)**	**(4,524)**	**–**	**(101,730)**
Eliminated on disposal of subsidiaries *(note 35B)*	**–**	**–**	**(125)**	**–**	**–**	**(125)**
At 31 December 2019	**951,470**	**2,172,320**	**149,035**	**17,280**	**–**	**3,290,105**
CARRYING VALUES						
At 31 December 2019	**2,724,739**	**3,662,146**	**158,882**	**8,651**	**1,904,758**	**8,459,176**
At 31 December 2018 (Restated)	2,180,494	2,625,729	98,378	7,057	1,780,562	6,692,220

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group has obtained the formal title for all buildings except for buildings with carrying amount of RMB70,430,000 (2018: RMB75,028,000) in which the Group is in the process of obtaining.

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over their estimated useful lives, after taking account their residual value, as follows:

Buildings	Over the shorter of the relevant lease, or 20 to 25 years
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20% — 33.33%
Motor vehicles	20%

14A. RIGHT-OF-USE ASSETS

	Land and buildings *RMB'000*
CARRYING VALUES	
At 1 January 2019	**723,977**
Additions	**118,414**
Acquisition of subsidiaries *(note 35A)*	**68,703**
Disposals	**(1,708)**
Depreciation provided for the year	**(85,749)**
Exchange adjustment	**(435)**
At 31 December 2019	**823,202**
Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	**10,541**
Total cash outflows for leases *(note)*	**152,263**

Note: Amount includes payments of principal and interest portion of lease liabilities, short-term leases and right-of-use assets resulting from payments for lease of leasehold land.

For both years, the Group leases land and buildings for its operations. Lease contracts are entered into for fixed terms of one year to twenty years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

14B. PREPAID LEASE PAYMENTS

	2018
	RMB'000
	(Restated)
Analysed for reporting purpose as:	
Current asset	16,570
Non-current asset	526,903
	543,473

Prepaid lease payments comprise medium-term leasehold land in the PRC.

15. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	RMB'000
COST	
At 1 January 2018 (Restated)	101,771
Arising on acquisition of a subsidiary *(note 35A)*	38,981
At 31 December 2018 (Restated)	**140,752**
Arising on acquisition of a subsidiary *(note 35A)*	**48,212**
At 31 December 2019	**188,964**

For the purpose of impairment testing, goodwill has been allocated to five individual CGUs. The carrying amount of goodwill as at 31 December 2019 allocated to these units is as follows:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Ouyi Group *(note a)*	**82,172**	82,172
Baike Group *(note a)*	**17,875**	17,875
Gold Faith Group *(note a)*	**1,724**	1,724
YZY Biopharma *(note b)*	**38,981**	38,981
Yong Shun Group *(note c)*	**48,212**	—
	188,964	140,752

15. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL *(continued)*

Notes:

(a) The recoverable amounts of Ouyi (as defined in note 43) and its subsidiaries (collectively referred to as "Ouyi Group"), Baike Shangdong (as defined in note 43) and its subsidiaries (collectively referred to as "Baike Group"), and Gold Faith (as defined in note 43) and its subsidiaries (collectively referred to as "Gold Faith Group") have been determined based on value in use calculations. Their recoverable amounts are based on certain key assumptions. That calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. The rates used to discount the projected cash flows of Ouyi Group, Baike Group and Gold Faith Group are 12%, 15% and 15% (2018: 12%, 15% and 15%) per annum, respectively. The growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin based on past performance and management's expectations for the market development. The Directors believes that any reasonably possible changes in any of these assumptions would not cause the carrying amounts to exceed the recoverable amount.

(b) The recoverable amount of YZY Biopharma (as defined in note 35A) has been determined based on value in use calculation. The recoverable amount is based on certain key assumptions. That calculation uses cash flow projection based on financial budget approved by the management covering an 8-year period. The use of more than 5 years' projection is because the first drug candidate of YZY Biopharma is only expected to be commercialised by the fourth (2018: fifth) year of the projection. The rate used to discount the projected cash flows of YZY Biopharma is 22% (2018: 23%) per annum. Cash flows beyond the 8-year period (2018: 9-year period) are extrapolated using a steady 3% (2018: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin based on management's expectations for the market development. The Directors believes that any reasonably possible changes in any of these assumptions would not cause the carrying amount to exceed the recoverable amount.

(c) The recoverable amount of Yong Shun Group (as defined in note 35A) has been determined based on value in use calculation. The recoverable amount is based on certain key assumptions. That calculation uses cash flow projection based on financial budget approved by the management covering an 8-year period. The use of more than 5 years' projection is because the first drug candidate of Yong Shun Group is only expected to be commercialised by the fourth year of the projection. The rate used to discount the projected cash flows of Yong Shun Group is 23% per annum. Cash flows beyond the 8-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin based on management's expectations for the market development. Any reasonably possible changes in any of these assumptions may cause the carrying amount of Yong Shun Group to exceed the recoverable amount. In the opinion of the Directors, no impairment was recognised during the year ended 31 December 2019 as the acquisition of Yong Shun Group was just completed during the year and the clinical stage of the drug candidates was progressed as planned during the year.

During the years ended 31 December 2019 and 2018, the Directors determines that there is no impairment of any of its CGUs containing goodwill.

16. OTHER INTANGIBLE ASSETS

	Development costs	In-process research and development projects	Exclusive distribution right	Licenses and patents	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note a)	*(note b)*	*(note c)*	*(note d)*	
COST					
At 1 January 2018 (Restated)	109,469	–	–	109,179	218,648
Acquisition of subsidiaries *(note 35A)*	554	631,906	–	–	632,460
Additions	1,316	–	103,723	1,887	106,926
Exchange adjustments	–	–	–	1,531	1,531
At 31 December 2018 (Restated)	**111,339**	**631,906**	**103,723**	**112,597**	**959,565**
Acquisition of subsidiaries *(note 35A)*	**–**	**280,048**	**–**	**–**	**280,048**
Additions	**5,982**	**–**	**–**	**60,000**	**65,982**
Exchange adjustments	**–**	**–**	**–**	**768**	**768**
At 31 December 2019	**117,321**	**911,954**	**103,723**	**173,365**	**1,306,363**
AMORTISATION AND IMPAIRMENT					
At 1 January 2018 (Restated)	97,580	–	–	34,814	132,394
Provided for the year	6,737	–	–	13,405	20,142
Exchange adjustments	–	–	–	43	43
At 31 December 2018 (Restated)	**104,317**	**–**	**–**	**48,262**	**152,579**
Provided for the year	**4,922**	**–**	**–**	**13,032**	**17,954**
Exchange adjustments	**–**	**–**	**–**	**168**	**168**
At 31 December 2019	**109,239**	**–**	**–**	**61,462**	**170,701**
CARRYING VALUES					
At 31 December 2019	**8,082**	**911,954**	**103,723**	**111,903**	**1,135,662**
At 31 December 2018 (Restated)	7,022	631,906	103,723	64,335	806,986

16. OTHER INTANGIBLE ASSETS *(continued)*

Notes:

(a) Development costs mainly represent costs internally generated or techniques acquired from third parties for the development of products and production technology.

(b) In-process research and development projects ("IPR&D"s) were acquired through business combination. IPR&Ds are not yet available for use and are not amortised, but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

(c) During the year ended 31 December 2018, the Group entered into an agreement with a third party in relation to the commercialisation of a drug that has already received regulatory approval from United States Food and Drug Administration. Pursuant to the agreement, the Group is responsible for the approval application and commercialisation of the product in the PRC.

The consideration payable by the Group comprises upfront payments and milestone payments subject to the progress of obtaining product regulatory approval in the PRC, and an aggregate amount of United States Dollars ("USD") 15,000,000 (approximately RMB103,723,000) paid by the Group was capitalised as intangible assets.

The exclusive distribution right is not yet available for use and is not amortised but tested individually for impairment annually until regulatory approval of the product in the PRC has been obtained.

(d) Licenses and patents were acquired from third parties.

The recoverable amount of each IPR&D and exclusive distribution right has been determined based on a value in use calculation using cash flow projection which is based on financial forecast approved by the Directors. The discount rates applied to the cash flow projections are 22% to 23%, which are determined by reference to the average discount rate for each IPR&D and exclusive distribution right with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

The following describes each key assumptions on which management has based its cash flow projections to undertake impairment testing of IPR&Ds and exclusive distribution right:

The estimation of cash inflows/outflows include budgeted sales and gross margin which are based on management's expectation for the market development.

Discount rate — The discount rate used is before tax and reflects specific risks in respect of the related research and development efforts.

Growth rate — The growth rate is based on the estimated growth rate of related products taking into account the industry growth rate, past experience and the medium-term or long-term growth target.

Intangible assets having finite useful lives are amortised on a straight-line basis over their estimated useful lives:

Licenses and patents	3 to 10 years
Development costs	1 to 10 years

17A. INTEREST IN AN ASSOCIATE

	2019
	RMB'000
Cost of investment in an associate	**231,135**

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/ voting rights held by the Group		Principal activities
			2019	2018	
Beijing Guoxinhuijin Co., Ltd. ("Guoxin") *(note)*	Limited liability	The PRC	**30%**	12%	Network media

Note: As at 31 December 2018, a subsidiary of the Company, NBP (as defined in note 43), held 12% equity interest in Guoxin and accounted it as an equity instrument measured at FVTOCI. On 12 December 2019, CSPC XNW, another subsidiary of the Company, entered into an investment agreement with Guoxin (the "Investment Agreement") and pursuant to the Investment Agreement, CSPC XNW subscribed for 26 million shares of Guoxin for a consideration of RMB156,062,000 (of which RMB124,627,000 remained unsettled as at 31 December 2019) which is unsecured, non-interest bearing and repayable by instalments within one year. Upon completion of the subscription, the Group held 30% of the enlarged equity interest in Guoxin and the investment was accounted for as an investment in an associate using the equity method.

Summarised financial information of the Group's associate which represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs, is set out below:

Guoxin

	2019
	RMB'000
Current assets	**217,382**
Non-current assets	**383,441**
Current liabilities	**(12,001)**
Non-current liabilities	**(94,508)**

Revenue, profit and total comprehensive income were insignificant to the Group for the period from 12 December 2019 (date of acquisition) to 31 December 2019.

17A. INTEREST IN AN ASSOCIATE *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2019
	RMB'000
Net assets of Guoxin	**494,314**
Proportion of the Group's ownership interest in Guoxin	**30%**
The Group's share of net assets of Guoxin	**148,294**
Provisional goodwill	**82,841**
Carrying amount of the Group's interests in Guoxin	**231,135**

The fair value and classification of assets and liabilities of Guixon have been determined on a provisional basis awaiting further information and finalisation of the valuation.

17B. INTERESTS IN JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Cost of investment in joint ventures	**101,327**	77,139
Share of post-acquisition profits, net of dividends received	**75,312**	49,140
	176,639	126,279
Amount due from a joint venture *(note 41)*	**150,432**	—

17B. INTERESTS IN JOINT VENTURES *(continued)*

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/ voting rights held by the Group 2019	2018	Principal activities
Hebei Boao Medical Laboratory Co., Ltd ("Boao") *(note a)*	Limited liability	The PRC	**49%**	49%	Provision of pharmaceutical research and development services
Hebei Huarong Pharmaceutical Co., Ltd ("Huarong") *(note b)*	Sino foreign equity joint venture	The PRC	**26.47%**	50%	Manufacture and sale of vitamin B12 product
Yantai Jiashi Pharmaceutical Technology Co., Ltd ("Yantai Jiashi")	Sino foreign equity joint venture	The PRC	**50%**	50%	Provision of pharmaceutical research and development services
Bioworkshops Limited ("Bioworkshops") *(note a)*	Limited liability	The British Virgin Islands ("BVI")/the PRC	**78%**	N/A	Provision of pharmaceutical research and development services

Notes:

(a) Pursuant to the relevant agreements and articles of association of Boao and Bioworkshops, the strategic financial and operating decisions relating to the relevant activities require the unanimous consent of all the joint venture partners. Accordingly, Boao and Bioworkshops are accounted for as joint ventures.

(b) During the year ended 31 December 2019, the Group's equity interest in Huarong was diluted to 26.47% upon additional capital contribution from other equity owners on 18 March 2019 while the Group has decided not to make the proportional contribution. Pursuant to the relevant agreement and articles of association of Huarong, the strategic financial and operating decisions relating to the relevant activities require the unanimous consent of the Group and other joint venture partners. Accordingly, Huarong remains to be accounted for as a joint venture. The Group recognised a loss on deemed disposal of partial interest in Huarong of RMB17,235,000 resulting from the dilution event.

Summarised financial information in respect of the Group's material joint venture which represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs is set out below.

17B. INTERESTS IN JOINT VENTURES *(continued)*

The joint venture is accounted for using the equity method in these consolidated financial statements.

Huarong	2019 RMB'000	2018 RMB'000 (Restated)
Current assets	**440,563**	503,254
Non-current assets	**527,469**	362,361
Current liabilities	**(328,552)**	(608,719)
Non-current liabilities	**(1,602)**	(4,514)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	**75,773**	118,050
Non-current financial liabilities (excluding trade and other payables and provisions)	**(1,602)**	(4,514)

Revenue	**904,004**	519,179
Profit for the year and total comprehensive income for the year	**215,495**	131,569
Dividends received from Huarong during the year	**25,000**	—

The above profit for the year includes the following:

Depreciation and amortisation	**(36,056)**	(16,950)
Interest income	**3,176**	6,166
Income tax expense	**(46,307)**	(26,321)

17B. INTERESTS IN JOINT VENTURES *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Huarong recognised in the consolidated financial statements:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Net assets of Huarong	**637,878**	252,382
Proportion of the Group's ownership interest in Huarong	**26.47%**	50%
	168,846	126,191
Aggregate information of joint ventures that are not individually material		
The Group's share of loss and total comprehensive expense	**(9,424)**	(22,231)
Unrecognised share of loss of joint ventures for the year	**(18,082)**	—
Cumulative unrecognised share of loss of joint ventures	**(18,082)**	—

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Listed equity investment, at fair value *(note i)*	**42,120**	66,261
Unlisted equity investments in partnerships, at fair value *(note ii)*	**603,290**	341,413
Unlisted equity investments, at fair value *(note iii)*	**432,522**	264,589
	1,077,932	672,263

These investments are not held for trading but for long-term strategic purposes. The Directors have elected to designate these investments in financial assets measured at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

Notes:

(i) The amount represents equity security listed in Hong Kong and the fair value of the investment is determined based on the quoted market bid prices available on the relevant exchange. The investment is not intended to be held in short-term to earn a profit.

(ii) The amount represents unlisted equity investments in limited partnership enterprises (the "Partnership Enterprise(s)") which specialise in making equity investment. The Group has an intention of holding them as long-term investments.

According to the Partnership Enterprise agreements, each Partnership Enterprise is managed by a general partner. The Group participates in the Partnership Enterprises as one of the limited partners whom does not have the power on selection nor removal of assets manager or general partner of the Partnership Enterprises. In addition, the Group does not have any right on making operating, investing and financing decision of the Partnership Enterprises. The Directors are of the opinion that the Group does not have any control nor significant influence to affect the variable returns through its investment in the Partnership Enterprises and therefore these investments are accounted for as financial assets measured at FVTOCI.

(iii) The amount represents investments in unlisted equity interests in entities established in the PRC, which are measured at FVTOCI.

In the current year, the Group disposed of some of the investments for a consideration of RMB16,977,000 (2018: RMB3,698,000), which was also the fair value as at the date of disposal. A cumulative gain on disposal of RMB516,000 (2018: RMB997,000) has been transferred to accumulated profits.

19. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Raw materials	**458,756**	686,191
Work in progress	**362,769**	359,073
Finished goods	**1,714,218**	2,000,054
	2,535,743	3,045,318

20. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000 (Restated)
Trade receivables	**2,273,530**	2,076,986
Less: allowance for impairment	**(14,686)**	(12,061)
	2,258,844	2,064,925

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB1,546,942,000.

The Group allows a general credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on the invoice dates which approximated the respective revenue recognition dates:

	2019 RMB'000	2018 RMB'000 (Restated)
0 to 90 days	**2,124,588**	1,861,714
91 to 180 days	**125,010**	188,303
181 to 365 days	**2,830**	7,880
More than 365 days	**6,416**	7,028
	2,258,844	2,064,925

Trade receivables with aggregate carrying amount of RMB134,256,000 (2018: RMB203,211,000) are past due as at the reporting date. The amounts are not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the group to the counterparty.

As at 31 December 2019, the Group's trade receivables denominated in USD amounted to RMB366,749,000 (2018: RMB192,633,000).

Details of impairment assessment of trade receivables are set out in note 39.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Prepayments for purchase of raw materials	**176,471**	143,067
Prepaid research and development expenses	**4,459**	44,464
Prepayment for acquisition of intangible assets *(note)*	**–**	100,000
Deposits paid for right-of-use assets/prepaid lease payments	**333,380**	229,000
Deposits and prepayments for utilities	**51,646**	35,400
Other taxes recoverable	**114,453**	70,756
Others	**230,223**	187,400
	910,632	810,087
Analysed as:		
Current	**567,252**	481,087
Non-current	**343,380**	329,000
	910,632	810,087

Note: During the year ended 31 December 2018, the Group entered into a collaboration agreement with a third party and paid upfront payment of RMB100,000,000 for acquiring the exclusive commercialisation right of a pharmaceutical product which was undergoing clinical trials in the PRC. During the year ended 31 December 2019, the collaboration was terminated and an impairment provision of RMB100,000,000 in respect of the upfront payment was recognised and included in other expenses.

22. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (2018: less than 365 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information and experience.

During the year ended 31 December 2018, bills receivables issued by group companies for settlement of intragroup transactions were discounted to bank without recourse for proceeds of RMB1,504,583,000, and the related liabilities were included in bills payables as at 31 December 2018.

23. STRUCTURED BANK DEPOSITS

Structured bank deposits of RMB93,700,000 carry no guaranteed return and have a total expected return up to 3.5% (31 December 2018: RMB2,262,366,000 carried no guaranteed return and had total expected return up to 5.70%), depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the terms of relevant deposits.

Structured bank deposits of RMB1,744,459,000 carry guaranteed return of 3.8% and have a total expected return up to 5.7% (31 December 2018: RMB30,000,000 carried guaranteed return of 1.35% and had total expected return up to 3.80%), depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives.

As at 31 December 2019, structured bank deposits of RMB195,000,000 (2018: RMB1,379,900,000) have been pledged to secure certain banking facilities of the Group.

24. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH/BANK DEPOSITS

Restricted bank deposits and bank balances carry interest at market interest rates ranging from 0.01% to 3.00% (2018: 0.01% to 4.31%) per annum.

As at 31 December 2018, bank deposits with a term of five years amounting to RMB100,000,000 carried interest at market interest rate of 4.75% per annum and were pledged to secure certain banking facilities granted to the Group.

As at 31 December 2019 and 2018, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade payables and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term bank facilities.

The restricted bank deposits and bank balances that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
HK$	**76,230**	147,948
USD	**273,112**	281,004

25. TRADE PAYABLES

The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
0 to 90 days	**941,700**	1,455,498
91 to 180 days	**34,626**	60,093
More than 180 days	**134,557**	103,765
	1,110,883	1,619,356

The general credit period on purchases of goods is up to 90 days (2018: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

26. OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Customers' deposits	**238,748**	340,811
Other taxes payable	**126,489**	206,275
Selling expense payable and other accrued charges	**1,512,130**	950,798
Payables arising from construction cost and acquisition of property, plant and equipment	**1,157,020**	845,308
Government grants *(note 32)*	**359,841**	360,375
Staff welfare payable	**244,848**	239,559
Others	**207,309**	159,540
	3,846,385	3,102,666

26. OTHER PAYABLES *(continued)*

	2019 RMB'000	2018 RMB'000 (Restated)
Analysed as:		
Current	**3,691,652**	2,920,262
Non-current — government grants *(note 32)*	**154,733**	182,404
	3,846,385	3,102,666

27. BILLS PAYABLES

All bills payables of the Group are aged within 365 days (2018: 365 days) and not yet due at the end of the reporting period. As at 31 December 2019, bills payables of RMB198,648,600 (2018: RMB1,504,583,000) are secured by bank deposits and certain structured bank deposits.

28. BORROWINGS

	2019 RMB'000	2018 RMB'000 (Restated)
Fixed-rate RMB bank loan	**23,000**	—
Floating-rate RMB bank loan	**—**	50,000
Fixed-rate USD bank loan	**—**	20,589
	23,000	70,589

The loans are repayable within one year based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2019, the loan is secured by the pledge of the Group's right-of-use assets and property with carrying amount of RMB34,142,000.

As at 31 December 2018, the loans were guaranteed by CHL (as defined in note 41).

28. BORROWINGS *(continued)*

The effective interest rates (which also equal to contracted interest rates) on the Group's borrowings at the end of each reporting period are as follows:

	2019	2018
Effective interest rate:		
Fixed-rate RMB bank loans	**5.22% per annum**	N/A
Floating-rate RMB bank loan	**N/A**	4.10% per annum
Fixed-rate USD bank loan	**N/A**	4.60% per annum

The floating-rate RMB bank loan was subject to interest at benchmark interest rate of the PRC plus a spread.

The Group's borrowing that is denominated in currency other than the functional currency of the relevant group entities are set out below:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
USD	**–**	20,589

At the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Floating-rate HK$ bank loans	**490,500**	303,600
Fixed-rate RMB bank loans	**7,000**	–
Floating-rate RMB bank loans	**–**	70,000
Fixed-rate USD bank loans	**–**	37,510
	497,500	411,110

29. CONTRACT LIABILITIES

Contract liabilities represent deposits received from sales of goods. As at 1 January 2018, contract liabilities amounted to RMB555,468,000.

The Group receives certain percentage of the contract value from customers when the sale agreements are signed or purchase orders are placed. This gives rise to contract liability at the start of a contract until revenue is recognised.

During the year ended 31 December 2019, revenue recognised in the current year relating to brought-forward contract liabilities is RMB700,075,000 (2018: RMB555,468,000).

30. LEASE LIABILITIES

	2019
	RMB'000
The lease liabilities are payable as follows:	
Within one year	**74,235**
Within a period of more than one year but not more than two years	**76,953**
Within a period of more than two years but not more than five years	**12,277**
Within a period of more than five years	**1,070**
	164,535
Less: Amount due for settlement within one year shown under current liabilities	**(74,235)**
Amount due for settlement after one year shown under non-current liabilities	**90,300**

31. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Deferred tax assets	**34,843**	18,946
Deferred tax liabilities	**(304,427)**	(237,917)
	(269,584)	(218,971)

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

	Unrealised profits on inventories	**Property, plant and equipment**	**Prepaid lease payments/ right-of-use assets**	**Other intangible assets**	**Withholding tax on undistributed profits of subsidiaries**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018 (Restated)	15,978	(5,589)	(7,188)	(6,157)	(89,740)	(92,696)
Credit (charge) to profit or loss	1,616	2,084	369	1,085	(34,164)	(29,010)
Acquisition of subsidiaries *(note 35A)*	–	(2,329)	(151)	(94,785)	–	(97,265)
At 31 December 2018 (Restated)	**17,594**	**(5,834)**	**(6,970)**	**(99,857)**	**(123,904)**	**(218,971)**
Credit (charge) to profit or loss	**17,228**	**7,521**	**1,757**	**1,087**	**(36,220)**	**(8,627)**
Acquisition of subsidiaries *(note 35A)*	**–**	**–**	**–**	**(42,007)**	**–**	**(42,007)**
Exchange adjustments	**21**	**–**	**–**	**–**	**–**	**21**
At 31 December 2019	**34,843**	**1,687**	**(5,213)**	**(140,777)**	**(160,124)**	**(269,584)**

31. DEFERRED TAXATION *(continued)*

At the end of the reporting period, the Group has unused tax losses of approximately RMB806,918,000 (2018: RMB232,761,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unused tax losses will expire as follows:

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
2021	**984**	984
2022	**6,411**	6,411
2023	**46,309**	44,160
2024	**103,430**	21,307
2025	**48,288**	39,667
2026	**40,722**	33,813
2027	**127,064**	42,197
2028	**89,414**	44,222
2029	**344,296**	—
	806,918	232,761

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB6,879,928,000 (2018: RMB5,576,655,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant deferred taxation for the year or at the end of the reporting period.

32. GOVERNMENT GRANTS

	2019	2018
	RMB'000	RMB'000
		(Restated)
Current		
— Acquisition of property, plant and equipment *(note a)*	**19,225**	9,645
— Other subsidies *(note b)*	**185,883**	168,326
	205,108	177,971
Non-current		
— Acquisition of property, plant and equipment *(note a)*	**154,733**	182,404
Total (included in other payables in note 26)	**359,841**	360,375

Notes:

(a) Government grants include cash subsidies received from the PRC government which are specific for the purchase of plant and machinery and will be transferred to profit or loss over the useful lives of the related assets upon the Group has complied with the conditions attaching to the grants. During the year, the Group recognised income of RMB18,639,000 (2018: RMB9,608,000).

(b) Other subsidies are generally provided in relation to development of pharmaceutical products or improvement of production efficiency. Such amounts are included in other payables until the conditions attaching to the grants have been fulfilled. During the year, the Group recognised income of RMB117,109,000 (2018: RMB19,499,000).

33. SHARE CAPITAL

	Number of shares	Share capital
		RMB'000
		(Restated)
Issued and fully paid		
At 1 January 2018	6,243,018,403	10,899,412
Share repurchased and cancelled *(note a)*	(6,680,000)	—
At 31 December 2018, 1 January 2019 and 31 December 2019	6,236,338,403	10,899,412

33. SHARE CAPITAL *(continued)*

Note:

(a) During the year ended 31 December 2019, the Company repurchased its own shares on the Stock Exchange through the Trustee as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid *RMB'000*
January 2019	10,000,000	HK$12.06 (equivalent to RMB10.61)	HK$11.08 (equivalent to RMB9.75)	100,706

As at 31 December 2019, all the shares were held by the Trustee.

During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid *RMB'000*
October 2018	4,680,000	HK$15.66 (equivalent to RMB13.22)	HK$14.72 (equivalent to RMB12.42)	59,937
December 2018	2,000,000	HK$14.06 (equivalent to RMB11.87)	HK$13.68 (equivalent to RMB11.55)	23,496
	6,680,000			83,433

The above ordinary shares were cancelled upon repurchase during the year ended 31 December 2018.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years.

34. LONG TERM INCENTIVE PROGRAM

(a) Share option scheme

2015 share option scheme

The share option scheme (the "2015 Scheme") was adopted on 9 December 2015. The purpose of the 2015 Scheme is to provide the Company with a flexible means of giving incentive to Directors and employees of each member of the Group, and eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors of the Company ("the Board"). The 2015 Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the 2015 Scheme unless the Company obtains a fresh approval from its shareholders. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding the independent non-executive director of the Company who is the grantee). Where the granting of options to a participant who is an independent non-executive director of the Company or a substantial shareholder of the Company would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant in aggregate exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000 (equivalent to RMB4,400,000), such proposed grant must be approved by the shareholders of the Company by poll in general meeting.

Options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer (both dates inclusive) upon payment of HK$1. The subscription price is determined by the Board and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the Board to each grantee and such period shall expire not later than 10 years from the date of grant of options. No share options have been granted under the 2015 Scheme since its adoption.

34. LONG TERM INCENTIVE PROGRAM *(continued)*

(b) Share award scheme

2018 share award scheme

The Board has adopted a share award scheme on 20 August 2018 (the "2018 Share Award Scheme"). The purposes of the 2018 Share Award Scheme are to a) provide any participant selected by the Board with an opportunity to acquire a proprietary interest in the Company; b) to encourage and retain such individuals to work with the Company; and c) to provide additional incentive to them to achieve performance goals and help in retaining them.

The total number of shares which may be purchased or issued pursuant to the 2018 Share Award Scheme shall not in aggregate exceed 2% of the shares of the Company in issue as at the date of approval of the 2018 Share Award Scheme. The maximum number of shares which may be granted to a selected participant at any one time or in aggregate under the 2018 Share Award Scheme must not exceed 0.5% of the shares of the Company in issue as at the date of approval of the 2018 Share Award Scheme.

Where any grant of shares is proposed to be made to any selected participant who is a Director (including any independent non-executive director), such grant must first be approved by all the independent non-executive directors and in each case excluding any independent non-executive director who is the proposed selected participant.

Subject to any early termination in accordance with the rules of 2018 Share Award Scheme, the 2018 Share Award Scheme shall be valid and effective for a period of 10 years commencing from its adoption. Any shares held by the trustee on behalf of a selected participant shall be vested by selected participant in accordance with the vesting conditions or vesting schedule as set out in the grant notice. Restricted shares which do not vest will be forfeited and may be re-granted to other selected participants by the Board. No share has been granted under the 2018 Share Award Scheme for the year ended 31 December 2018.

For the purpose of the 2018 Share Award Scheme, the Company purchased an aggregate of 10,000,000 of its own ordinary shares on the Stock Exchange in January 2019 through the Trustee.

On 15 January 2019, the Company granted 2,394,000 award shares ("Award Shares") under the 2018 Share Award Scheme to employees of the Group. A total of 1,200,000, 597,000 and 597,000 of the Award Shares will vest on 14 January 2022, 14 January 2023 and 14 January 2024 respectively, subject to the accomplishment of certain non-market conditions. The fair value of the awarded shares amounted to RMB25,113,000 and was determined with reference to the share price of the Company on date of grant of HK$11.92 (equivalent to RMB10.49).

During the year ended 31 December 2019, share-based payment expense of RMB6,721,000 (2018: Nil) has been recognised in profit or loss and no awarded shares were forfeited.

At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share awards reserve.

35A. ACQUISITION OF SUBSIDIARIES AND ASSETS

For the year ended 31 December 2019

(a) Business combination

On 4 January 2019, the Group entered into an equity transfer agreement with an independent third party to acquire 100% interest in Yong Shun Technology Development Limited ("Yong Shun") and its wholly-owned subsidiaries, Shanghai Jinmante Biotechnology Co., Ltd. ("JMT Biotechnology") and Shanghai Jinmante Biopharmaceutical Co., Ltd. ("JMT Biopharmaceutical") (hereinafter collectively referred to as "Yong Shun Group") for a cash consideration of RMB252,880,000. The acquisition was completed on 11 January 2019. Yong Shun Group is principally engaged in research and development of innovative biological drugs.

The above acquisition has been accounted for using the acquisition method of accounting.

Asset acquired and liabilities recognised at the date of acquisition

	Yong Shun Group *RMB'000*
Fair value of assets and liabilities recognised at the date of acquisition:	
Non-current assets	
Property, plant and equipment	8,698
Intangible assets *(note)*	280,048
Current assets	
Trade receivables	143
Deposits, prepayments and other receivables	4,663
Bank balances and cash	1,293
Current liabilities	
Trade payables	(3,674)
Other payables	(44,496)
Non-current liabilities	
Deferred tax liabilities	(42,007)
Total identifiable net assets acquired	204,668

Note: The intangible assets mainly represent the IPR&Ds acquired. IPR&Ds are not yet available for use and are not amortised but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

The fair values of trade and other receivables of the acquired entities at the date of acquisition amounted to RMB2,911,000 which represented the gross contractual amounts at the date of acquisition.

35A. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2019 *(continued)*

(a) Business combination *(continued)*

Goodwill arising from acquisition

	Yong Shun Group
	RMB'000
Consideration transferred	252,880
Less: Recognised amount of identifiable net assets acquired	(204,668)
Goodwill arising on acquisition	48,212

Goodwill arose in the acquisition of Yong Shun Group because of the expected synergies, revenue growth, future market development and the assembled workforce of Yong Shun Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

The acquisition-related costs incurred are insignificant.

Net cash outflow on acquisition of subsidiaries

	Yong Shun Group
	RMB'000
Cash consideration paid	252,880
Bank balances and cash acquired	(1,293)
Net cash outflow	251,587

Yong Shun did not have any significant contribution to the Group's revenue for the year ended 31 December 2019. Included in the profit for the year is a loss of RMB89,771,000 attributable to the additional business generated by Yong Shun.

Had the acquisition been completed on 1 January 2019, total amount of the Group's revenue and profit for the year ended 31 December 2019 would not be significantly different from those reported in the consolidated statement of profit or loss. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

35A. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2019 *(continued)*

(b) Assets acquisitions

During the year ended 31 December 2019, the following assets acquisitions have been accounted for as acquisition of assets as they did not operate any business prior to the dates of acquisitions.

(i) On 1 February 2019, the Group entered into an agreement to acquire 100% equity interest in Shanghai Lianyin Property Management Co., Ltd. ("Shanghai Lianyin") from independent third parties for a cash consideration of RMB96,899,000, and to acquire the loan from former equity owners of Shanghai Lianyin for a cash consideration of RMB78,285,000. The acquisition, which was completed on 6 March 2019, enabled the Group to acquire leasehold land and property for its research and development centre in Shanghai; and

(ii) On 28 March 2019, the Group entered into an agreement to acquire 100% equity interest in Suzhou Jiufu Electronics Co., Ltd. ("Suzhou Jiufu") from independent third parties for a consideration of RMB18,941,000, and to acquire the loan from former equity owners of Suzhou Jiufu for a cash consideration of RMB62,059,000. The acquisition, which was completed on 9 April 2019, enabled the Group to acquire leasehold land and property for its research and development centre in Suzhou.

Assets acquired and liabilities recognised at the dates of acquisitions

	Shanghai Lianyin	Suzhou Jiufu	Total
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	116,043	71,302	187,345
Right-of-use assets	59,005	9,698	68,703
Current assets			
Bank balances and cash	136	—	136
Total assets acquired	175,184	81,000	256,184
Less: Loan from former equity owners	(78,285)	(62,059)	(140,344)
	96,899	18,941	115,840
Net cash outflow on acquisition of assets			
Cash consideration			
— Equity interest	96,899	18,941	115,840
— Loan from former equity owners	78,285	62,059	140,344
Bank balances and cash acquired	(136)	—	(136)
Net cash outflow	175,048	81,000	256,048

35A. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2018

i) On 9 January 2018, the Group entered into an equity transfer agreement with independent third parties to acquire an aggregate 37% interest in Wuhan YZY Biopharma Co., Ltd. ("YZY Biopharma") for a cash consideration of RMB203,574,000 and a contingent consideration up to RMB55,426,000, depending on the achievement of certain milestone events. On the same date, the Group also entered into a capital injection agreement pursuant to which the Group would inject RMB76,242,000 to YZY Biopharma upon completion of the aforesaid equity transfer. YZY Biopharma is principally engaged in the development of innovative biopharmaceutical drugs. The acquisition was completed on 31 January 2018 and together with the capital injection, the Group holds a 39.56% interest in YZY Biopharma.

As a result of a contractual arrangement with certain equity owners of YZY Biopharma, the Group is given the power to control the majority of the votes in the equity owners' and board of directors' meetings of YZY Biopharma that direct the relevant activities of YZY Biopharma. As such, the Group has obtained control over YZY Biopharma upon the acquisition and accounted it as a subsidiary.

ii) On 3 March 2018, the Group entered into an equity transfer agreement to acquire 60% equity interest in CSPC Anwoqin Pharmaceutical (Taizhou) Co., Ltd. ("Anwoqin") from a non-wholly owned subsidiary of CHL for a cash consideration of RMB15,615,000. Anwoqin is principally engaged in the manufacturing and sales of pharmaceutical products. The acquisition was completed on 27 March 2018.

The above acquisitions have been accounted for using the acquisition method of accounting.

Consideration transferred

	YZY Biopharma	Anwoqin	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)
Cash consideration	279,816	15,615	295,431
Contingent consideration agreement *(note)*	32,274	—	32,274
	312,090	15,615	327,705

Note: Pursuant to the relevant agreement, the Group is required to pay an additional consideration up to RMB55,426,000 if milestone events in relation to two biospecific antibodies can be achieved by the respective agreed timeline from 2018 to 2020. The fair value of such contingent arrangement amounted to RMB32,274,000 as at the date of acquisition and RMB32,053,000 at 31 December 2019 (2018: RMB32,274,000).

35A. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2018 *(continued)*

Assets acquired and liabilities recognised at the date of acquisitions

	YZY Biopharma	Anwoqin	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)
Fair value of assets and liabilities recognised at the date of acquisition:			
Non-current assets			
Property, plant and equipment	78,023	128	78,151
Prepaid lease payments	10,210	—	10,210
Intangible assets *(Note)*	632,460	—	632,460
Current assets			
Inventories	1,948	4,286	6,234
Trade receivables	—	4,415	4,415
Deposits, prepayments and other receivables	69,158	7,350	76,508
Bills receivables	—	347	347
Bank balances and cash	138,424	13,223	151,647
Current liabilities			
Trade payables	(5,496)	(2,427)	(7,923)
Other payables	(106,993)	(1,297)	(108,290)
Non-current liabilities			
Other payables	(3,600)	—	(3,600)
Deferred tax liabilities	(97,265)	—	(97,265)
Borrowings	(26,500)	—	(26,500)
Total identifiable net assets acquired	690,369	26,025	716,394

Note: The intangible assets mainly represent the IPR&Ds acquired which are not yet available for use and are not amortised but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

The fair value of assets and liabilities of YZY Biopharma and Anwoqin are valued by independent qualified professional valuers which are not connected to the Group.

The fair values of trade receivables, deposits, prepayments and other receivable, and bills receivables of the acquired entities at the dates of acquisitions amounted to RMB81,270,000 which represents the gross contractual amounts at the date of acquisition.

35A. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2018 *(continued)*

Goodwill arising from acquisition

	YZY Biopharma	Anwoqin	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)
Consideration transferred	312,090	15,615	327,705
Plus: Non-controlling interests	417,260	10,410	427,670
Less: Recognised amount of identifiable net assets acquired	(690,369)	(26,025)	(716,394)
Goodwill arising on acquisition	38,981	—	38,981

Goodwill arose in the acquisition of YZY Biopharma because of the expected synergies, revenue growth, future market development and the assembled workforce of YZY Biopharma. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

The acquisition-related costs incurred are insignificant.

Non-controlling interests

The non-controlling interests in YZY Biopharma and Anwoqin recognised at the acquisition dates were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets and amounted to RMB427,670,000.

Net cash outflow on acquisition of subsidiaries

	YZY Biopharma	Anwoqin	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)	(Restated)	(Restated)
Cash consideration paid	279,816	15,615	295,431
Bank balances and cash acquired	(138,424)	(13,223)	(151,647)
Net cash outflow	141,392	2,392	143,784

The acquired entities did not have any significant contribution to the Group's revenue or results for the year ended 31 December 2018.

35A. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2018 *(continued)*

Net cash outflow on acquisition of subsidiaries *(continued)*

Had the acquisitions of the above entities been completed on 1 January 2018, total amount of the Group's revenue for the year ended 31 December 2018 would have been RMB17,724,692,000 and the profit for the year ended 31 December 2018 would have been RMB3,055,731,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2018, nor is it intended to be a projection of future results.

35B. DISPOSAL OF SUBSIDIARIES

(i) On 28 May 2019, the Group has entered into a share transfer agreement with an independent third party to dispose of its equity interest in a subsidiary, Shijiazhuang Puentang Traditional Chinese Medicine Clinic Co., Ltd. ("Puentang"), for a consideration of RMB10,000,000. The disposal was completed on 28 May 2019 with the Group losing control in Puentang. The net assets of Puentang at the date of disposal were as follows:

Net cash inflow arising on disposal:

	RMB'000
Cash consideration	10,000
Less: bank balance and cash disposed of	(925)
	9,075

Analysis of assets and liabilities over which control was lost:

	28 May 2019 *RMB'000*
Property, plant and equipment	4,022
Inventories	260
Trade receivables	341
Other receivables	215
Bank balance and cash	925
Other payables	(785)
Net assets disposed of	4,978
Gain on disposal of a subsidiary:	
Consideration received	10,000
Net assets disposed of	(4,978)
Gain on disposal	5,022

35B. DISPOSAL OF SUBSIDIARIES *(continued)*

(ii) On 25 October 2019, the Group has entered into a share transfer agreement with an independent third party to dispose of its entire equity interest in a subsidiary, Loyang Zhongcheng Pharmaceutical Limited ("Loyang Zhongcheng"), for a consideration of RMB3,277,000. The disposal was completed on 25 October 2019 with the Group losing control in Loyang Zhongcheng. The net assets of Loyang Zhongcheng at the date of disposal were as follows:

Net cash inflow arising on disposal:

	RMB'000
Cash consideration	3,277
Less: bank balances and cash disposed of	(2,077)
	1,200

Analysis of assets and liabilities over which control was lost:

	25 October 2019 *RMB'000*
Other receivables	420
Bank balances and cash	2,077
Other payables	(5)
Net assets disposed of	2,492
Gain on disposal of a subsidiary:	
Consideration received	3,277
Net assets disposed of	(2,492)
Gain on disposal	785

36. OPERATING LEASE COMMITMENTS

The Group as lessee

	2018 *RMB'000* (Restated)
Minimum lease payments paid under operating leases during the year	34,969

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 *RMB'000* (Restated)
Within one year	75,601
In the second to fifth year inclusive	130,238
Over five years	8,068
	213,907

Operating lease payments represent rentals payable by the Group for certain of its warehouses, plants and office premises. Leases are negotiated and rentals are fixed for an average term of four years.

37. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2019 ***RMB'000***	2018 *RMB'000* (Restated)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,494,280**	1,333,394
Other commitments arising from unlisted equity investments in partnerships	**395,324**	413,800
Other commitments arising from research and development projects	**164,700**	106,406

38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 28 and amounts due to related companies in note 41, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

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

39. FINANCIAL INSTRUMENTS

39a. Categories of financial instruments

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Financial assets		
Mandatorily measured at FVTPL		
— other financial assets	**536**	443
— structured bank deposits	**1,838,159**	2,292,366
Financial assets measured at FVTOCI	**1,077,932**	672,263
Financial assets at amortised cost (including cash and cash equivalents)	**8,905,689**	8,067,712
Financial liabilities		
Amortised cost	**4,604,177**	5,408,505

39b. Financial risk management objectives and policies

The major financial instruments of the Group include financial assets measured at FVTOCI, trade receivables, bills receivables, other receivables, trade receivables due from related companies, amounts due from joint ventures, other financial assets, bank deposits, structured bank deposits, restricted bank deposits, bank balances and cash, trade payables, other payables, bills payables, amount due to a joint venture, amounts due to related companies, amount due to an associate and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Market risk

(i) *Currency risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in USD, listed equity investments denominated in HK$, unlisted equity investment in partnerships denominated in USD and bank balances and cash denominated in USD and HK$, and the Company has raised HK$ bank loans and USD bank loans, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		**Assets**	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
HK$	**–**	–	**76,230**	147,948
USD	**35,340**	82,809	**639,861**	473,637

Sensitivity analysis

The Group is mainly exposed to currency risk of HK$ and USD.

The following table details the sensitivity of the Group to a 5% (2018: 5%) increase and decrease in RMB against HK$ and USD. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% (2018: 5%) change in foreign currency rates. The post-tax profit would decrease by the below amounts where RMB strengthens 5% (2018: 5%) against the relevant currency. For a 5% (2018: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and other equity.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) *Currency risk (continued)*

Sensitivity analysis *(continued)*

	HK$ Impact (i)		USD Impact (ii)	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
Post-tax profit	**(2,859)**	(5,918)	**(24,181)**	(15,633)

(i) This is mainly attributable to the exposure to outstanding HK$ denominated bank balances and bank loans as at the end of the reporting period.

(ii) This is mainly attributable to the exposure to outstanding USD denominated bank balances, bank loans and trade receivables as at the end of the reporting period.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 28 for details of these borrowings), which were raised from banks in the PRC and lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

No sensitivity is presented for variable-rate bank balances and fixed-rate bank borrowings as the Directors considered that the relevant interest rate risk is minimal.

(iii) *Other price risk*

The Group is exposed to equity price risk through its investments in equity securities measured at FVTOCI. The Group invested in certain unquoted equity securities for long-term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk.

The price risk on the structured bank deposits is limited because the maturity periods of these deposits are short.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(iii) Other price risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective listed equity instruments had been 5% (2018: 5%) higher/lower:

- post-tax profit for the year ended 31 December 2019 would increase/decrease by RMB21,000 (2018: increase/decrease by RMB18,000) as a result of the changes in fair value of other financial assets; and

- investments revaluation reserve would increase/decrease by RMB2,106,000 (2018: RMB3,313,000) for the Group as a result of the changes in fair value of the listed equity investments measured at FVTOCI.

Credit risk and impairment assessment

As at 31 December 2019, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

The Group's concentration of credit risk by geographical locations on trade receivables is mainly in the PRC. The Group has concentration of credit risk as 31% (31 December 2018: 22%) and 44% (31 December 2018: 35%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers (continued)

Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has applied the simplified approach to measure the loss allowance at lifetime ECL. Except for trade receivables with significant outstanding and credit-impaired balances which are assessed individually, the Group determines the ECL on the remaining balances by using a provision matrix grouped by common risk characteristic. As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Trade receivables with significant outstanding balances and with aggregate gross carrying amount of RMB1,224,779,000 as at 31 December 2019 (2018: RMB910,828,000) are assessed individually. These balances are from counterparties which have low risk of default and usually settle within credit period. The exposure to credit risk for these balances are assessed within lifetime ECL with an average loss rate of approximately 0.03% (2018: 0.02%), impairment allowance of RMB317,000 (2018: RMB215,000) was provided by the Group as at 31 December 2019.

The remaining trade receivables with gross carrying amount of RMB1,048,751,000 (2018: RMB1,166,158,000) are assessed based on debtors' aging. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired) as at 31 December 2019.

Gross carrying amount

	Average loss rate			
	2019	2018	**2019**	2018
			RMB'000	*RMB'000*
				(Restated)
Current (not past due)	**0.13%**	0.13%	**923,474**	1,024,108
1 — 270 days past due	**4.46%**	4.24%	**112,015**	130,203
More than 270 days past due	**62.86%**	42.49%	**13,262**	11,847
			1,048,751	1,166,158

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers (continued)

Gross carrying amount *(continued)*

The estimated loss rates are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific trade receivable is updated.

As at 31 December 2019, the Group provided RMB14,369,000 (2018: RMB11,846,000) impairment allowance for trade receivables based on the provision matrix other than those significant outstanding balances.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018 (Restated)	—	11,278	11,278
Impairment losses recognised	12,061	—	12,061
Impairment losses reversed	—	(11,278)	(11,278)
At 31 December 2018 (Restated)	**12,061**	**—**	**12,061**
Impairment losses recognised	**14,686**	**—**	**14,686**
Impairment losses reversed	**(12,061)**	**—**	**(12,061)**
At 31 December 2019	**14,686**	**—**	**14,686**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivable is over two years past due, whichever occurs earlier.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Bank deposits/bank balances/restricted bank deposits/structured bank deposits

The credit risks on bank deposits, bank balances, restricted bank deposits and structured bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2019, the gross carrying amounts of bank deposits, bank balances, restricted bank deposits and structured bank deposits are nil, RMB4,118,236,000, RMB186,293,000 and RMB1,838,159,000 respectively (2018: RMB100,000,000, RMB4,335,613,000 RMB2,909,000 and RMB2,292,366,000 respectively) and the 12m ECL is considered immaterial for both years.

Bills receivables

The credit risk of bills receivables is limited because the counterparties are mainly banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2019, the gross carrying amount of bills receivables is RMB1,993,083,000 (2018: RMB1,296,364,000) and the 12m ECL is considered immaterial for both years.

Trade receivables due from related companies

In order to minimise the credit risk, the Group will assess the credit quality of related companies. Other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. The Group measures the loss allowance at lifetime ECL. As at 31 December 2019, the gross carrying amounts of trade receivables due from related companies is RMB140,183,000 (2018: RMB63,443,000).

For the purpose of impairment assessment for trade receivables from related companies, the lifetime ECL is considered to be immaterial after considering counterparties' financial background and creditability.

Amounts due from joint ventures

The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2019, the gross carrying amount of amounts due from joint ventures is RMB209,060,000 (2018: RMB204,450,000).

For the purpose of impairment assessment for amounts due from joint ventures, exposure to credit risk for those balances are assessed individually with 12m ECL. Impairment of RMB10,767,000 on amount due from a joint venture with gross carrying amount of RMB161,199,000 with a loss rate of 6.68% was provided by the Group as at 31 December 2019.

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Liquidity risk

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

As at 31 December 2019, the Group has available unutilised bank loan facilities of RMB677,000,000 (2018: RMB411,110,000). Details of which are set out in note 28.

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

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

As at 31 December 2019

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	More than 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities								
Trade payables	–	169,183	941,700	–	–	–	1,110,883	1,110,883
Other payables	–	2,913,998	–	–	–	–	2,913,998	2,913,998
Bills payables	–	1,820	54,024	260,293	–	–	316,137	316,137
Amount due to a joint venture	–	104,678	–	–	–	–	104,678	104,678
Amounts due to related companies	–	10,854	–	–	–	–	10,854	10,854
Amount due to an associate	–	124,627	–	–	–	–	124,627	124,627
Borrowing								
– fixed-rate	5.2	–	263	23,217	–	–	23,480	23,000
Lease liabilities	4.4	8,051	14,776	62,908	94,111	1,855	181,701	164,535
		3,333,211	1,010,763	346,418	94,111	1,855	4,786,358	4,768,712
Derivative								
Contingent consideration payable	4.9	18,130	–	–	14,608	–	32,738	32,053

39. FINANCIAL INSTRUMENTS *(continued)*

39b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2018 (Restated)

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities							
Trade payables	–	163,858	1,455,498	–	–	1,619,356	1,619,356
Other payables	–	2,035,665	–	–	–	2,035,665	2,035,665
Bills payables	–	–	371,345	1,283,125	–	1,654,470	1,654,470
Amounts due to related companies	–	28,425	–	–	–	28,425	28,425
Borrowings							
– floating-rate	4.1	–	–	52,300	–	52,300	50,000
– fixed-rate	4.6	–	–	21,433	–	21,433	20,589
		2,227,948	1,826,843	1,356,858	–	5,411,649	5,408,505
Derivative							
Contingent consideration payable	4.9	–	–	12,950	22,026	34,976	32,274

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

39. FINANCIAL INSTRUMENTS *(continued)*

39c. Fair value measurement of financial instruments

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liability	Fair value as at 31 December 2019 RMB'000	Fair value as at 31 December 2018 RMB'000 (Restated)	Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equity securities listed in the PRC	**536**	443	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity securities listed in Hong Kong	**42,120**	66,261	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unquoted equity investments	**1,035,812**	606,002	Level 3	Valuation based on recent transaction prices of underlying investments.	Recent transaction prices of underlying investments	The higher the recent transaction prices of underlying investments, the higher the fair value, vice versa.

39. FINANCIAL INSTRUMENTS *(continued)*

39c. Fair value measurement of financial instruments *(continued)*

(i) ***Fair value of the Group's financial assets that are measured at fair value on a recurring basis*** *(continued)*

Financial assets/ financial liability	Fair value as at 31 December 2019 RMB'000	Fair value as at 31 December 2018 RMB'000 (Restated)	Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Structured bank deposits	**1,838,159**	2,292,366	Level 2	Discounted cash flows — future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risks of various counterparties.	N/A	N/A
Contingent consideration payable in a business combination	**32,053**	32,274	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Probability of the achievement of certain milestone events	The higher the probability, the higher the fair value, vice versa.

There were no transfers between levels in the current year.

Unrealised fair value gain of RMB184,227,000 included in OCI for the year ended 31 December 2019 is related to financial assets measured at FVTOCI held at 31 December 2019 and are reported as changes of 'investments revaluation reserve'.

39. FINANCIAL INSTRUMENTS *(continued)*

39c. Fair value measurement of financial instruments *(continued)*

(i) ***Fair value of the Group's financial assets that are measured at fair value on a recurring basis*** *(continued)*

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports to the Directors every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

(ii) ***Reconciliation of Level 3 Measurements***

	Unquoted equity investments	Contingent consideration payable	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018 (Restated)	—	—	—
From cost to fair value	213,578	—	213,578
Total gain			
— in other comprehensive income	33,024	—	33,024
Purchase of unquoted equity investments	359,400	—	359,400
Acquisition of subsidiary	—	32,274	32,274
At 31 December 2018 (Restated)	**606,002**	**32,274**	**638,276**
Total gains			
— in other comprehensive income	**203,586**	**—**	**203,586**
— in profit or loss	**—**	**12,728**	**12,728**
Purchase of unquoted equity investments	**313,492**	**—**	**313,492**
Disposal of unquoted equity investments	**(12,195)**	**—**	**(12,195)**
Transfer to interest in an associate	**(75,073)**	**—**	**(75,073)**
Payment of contingent consideration	**—**	**(12,949)**	**(12,949)**
At 31 December 2019	**1,035,812**	**32,053**	**1,067,865**

(iii) ***Fair value of financial instruments that are recorded at amortised cost***

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Amounts due to related companies	Dividend payable	Dividend payable to NCI	Lease liabilities	Bills payable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 28)	*(note 41)*	*(note 12)*		*(note 30)*		
At 1 January 2018 (Restated)	825,208	36,298	–	–	–	50,000	911,506
Financing cash flows	(782,598)	(7,873)	(782,875)	(2,000)	–	1,504,583	(70,763)
Acquisition of subsidiaries	26,500	–	–	–	–	–	26,500
Dividend declared	–	–	782,875	2,000	–	–	784,875
Increase in bills payable	–	–	–	–	–	99,887	99,887
Foreign exchange translation	1,479	–	–	–	–	–	1,479
At 31 December 2018 (Restated)	**70,589**	**28,425**	**–**	**–**	**–**	**1,654,470**	**1,753,484**
Adjustment upon application of HKFRS 16	**–**	**–**	**–**	**–**	**180,504**	**–**	**180,504**
At 1 January 2019 (Restated)	**70,589**	**28,425**	**–**	**–**	**180,504**	**1,654,470**	**1,933,988**
Financing cash flows	**(47,589)**	**(17,571)**	**(965,385)**	**(2,910)**	**(64,564)**	**(1,504,583)**	**(2,602,602)**
Dividend declared	**–**	**–**	**965,385**	**2,910**	**–**	**–**	**968,295**
Increase in bills payable (note)	**–**	**–**	**–**	**–**	**–**	**166,250**	**166,250**
New leases entered	**–**	**–**	**–**	**–**	**48,995**	**–**	**48,995**
Foreign exchange translation	**–**	**–**	**–**	**–**	**(400)**	**–**	**(400)**
At 31 December 2019	**23,000**	**10,854**	**–**	**–**	**164,535**	**316,137**	**514,526**

Note: During the year ended 31 December 2018, bills receivables issued by group companies for settlement of intragroup transactions were discounted to bank without recourse for proceeds of RMB1,504,583,000, and the related liabilities were included in bills payables as at 31 December 2018, which were settled during 2019. The related cash flows were presented as financing cash flows in the consolidated statement of cash flows, while movement in other bills payables which were trade in nature were presented as operating cash flows for both of the reporting periods.

41. RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Other than those disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following significant transactions with related parties and the balances with them at the end of the reporting period are as follows:

(i) Related companies

Name of company	Nature of transactions/balances	2019	2018
		RMB'000	*RMB'000*
			(Restated)
CSPC Holdings Company Limited ("CHL") *(note d)*, and its subsidiaries and associates (the "CHL Group")	Sale of pharmaceutical products	**490,228**	339,300
	Rental expense	**10,541**	20,082
	Interest expense on other loans	**—**	189
	Interest expenses on lease liabilities	**7,189**	—
	Payment of lease liabilities	**67,861**	—
	Purchase of steam	**27,583**	29,527
	Recharge of utility expenses	**3,473**	2,631
	Warehouse service income	**11,320**	8,146
	Balance due from/to the CHL Group		
	— trade receivables *(note b)*		
	aged 0-90 days	**140,183**	63,443
	— other payables *(note a)*	**10,854**	28,425
	— lease liabilities	**159,683**	—
	Guarantees provided to banks to secure general banking facilities granted to the Group *(note c)*	**—**	207,970

41. RELATED PARTY DISCLOSURES *(continued)*

(ii) Joint ventures

Name of company	**Nature of transactions/balances**	**2019**	2018
		RMB'000	*RMB'000*
			(Restated)
Huarong	Purchase of raw materials	**129,647**	21,075
	Recharge of utility expenses	**135,371**	93,883
	Sales of raw materials	**216,938**	137,099
	Balance due from/to Huarong		
	— other receivables *(note a)*	**17,975**	66,298
	— other payables *(note a)*	**104,678**	—
Yantai Jiashi	Balance due from Yantai Jiashi		
	— other receivables *(note a)*	**40,653**	138,152
Bioworkshops	Balance due from Bioworkshops		
	— other receivables *(note a)*	**150,432**	—

(iii) An associate

Name of company	**Nature of balance**	**2019**	2018
		RMB'000	*RMB'000*
			(Restated)
Guoxin	Balance due to Guoxin		
	— capital injection payable *(note 17A)*	**124,627**	—

41. RELATED PARTY DISCLOSURES *(continued)*

Notes:

a. Amounts are unsecured, non-interest bearing and repayable on demand except for the amount due from Bioworkshops in which imputed interest was computed using the prevailing market interest rate of 4.75% per annum for comparable long term borrowings.

b. The Group allows a general credit period of 90 days (2018: 90 days) days for the sale. Trade receivables due from CHL Group with aggregate carrying amount of RMB 10,295,000 (2018: nil) are past due as at the reporting date. The amounts are not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable.

c. As at 31 December 2018, CHL entered into guarantee agreements with banks to secure the general banking facilities granted to the Group, amounting to RMB207,970,000 for free-of-charge to the Group. The guarantee was released during the year ended 31 December 2019.

d. Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significant influence over the Company and exercises control over CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.

(iv) Compensation to key management personnel

The details of the compensation paid to key management personnel are set out in note 9.

42. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs which contribution is matched by employees.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were RMB142,693,000 (2018: RMB127,416,000), of which RMB874,000 (2018: RMB867,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

43. PARTICULARS OF SUBSIDIARIES

43.1 General information of subsidiaries

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital and voting power held by the Company				Principal activity
				Directly		Indirectly		
				2019 %	2018 %	**2019** %	2018 %	
China Pharmaceutical Group Limited	Hong Kong	Limited liability	HK$3	**100**	100	**–**	–	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability	HK$2	**100**	100	**–**	–	Investment holding
Dragon Merit Holdings Limited	Hong Kong	Limited liability	HK$1	**–**	–	**100**	100	Investment holding
Robust Sun Holdings Limited	The British Virgin Islands/Hong Kong	Limited liability	USD2	**100**	100	**–**	–	Investment holding
Gold Faith Investments Limited ("Gold Faith")	Samoa	Limited liability	HK$311,758	**–**	–	**100**	100	Investment holding
Rockley Inc.	Samoa	Limited liability	USD1	**–**	–	**100**	100	Investment holding
CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd	The PRC	Foreign investment enterprise with limited liability	USD27,345,500	**100**	100	**–**	–	Manufacture and sale of vitamin C products
CSPC Hebei Zhongnuo Pharmaceutical Co., Ltd	The PRC	Sino-foreign equity joint venture with limited liability	RMB678,555,900	**88.82**	88.82	**10.57**	10.57	Manufacturing and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Tianjin) Co., Ltd.	The PRC	Limited liability	RMB1,000,000	**–**	–	**100**	100	Research and development of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	**100**	100	**–**	–	Research and development of pharmaceutical products

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital and voting power held by the Company				Principal activity
				Directly		Indirectly		
				2019	2018	**2019**	2018	
				%	%	**%**	%	
CSPC Zhongnuo Pharmaceutical Technology (Tianjin) Limited	The PRC	Limited liability	RMB160,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
Hebei Zhongrun Huanbao Co., Ltd	The PRC	Limited liability	RMB5,000,000	**–**	–	**100**	100	Sewage treatment
CSPC Yinhu Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB150,000,000	**–**	–	**90**	90	Manufacture and sale of pharmaceutical products
CSPC Zhongcheng Pharmaceutical Logistic Co., Limited	The PRC	Limited liability	RMB50,000,000	**–**	–	**99**	99	Storage, sourcing and distribution
CSPC Zhongnuo Pharmaceutical Import and Export Trading Co., Ltd.	The PRC	Limited liability	RMB1,000,000	**–**	–	**100**	100	Sale of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Limited liability	RMB170,000,000	**–**	–	**100**	100	Manufacture and sales of health supplement products
CSPC NBP Pharmaceutical Co., Ltd. ("NBP")	The PRC	Foreign investment enterprise with limited liability	RMB413,594,300	**54.06**	54.06	**45.94**	45.94	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Co., Ltd. ("Ouyi")	The PRC	Foreign investment enterprise with limited liability	RMB300,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Import and Export Trading Co., Ltd.	The PRC	Limited liability	RMB100,000	**–**	–	**100**	100	Trading of pharmaceutical products
CSPC XNW	The PRC	Joint-stock limited company	RMB200,000,000	**–**	–	**75**	100	Manufacture and sales of caffeine products

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital and voting power held by the Company				Principal activity
				Directly		Indirectly		
				2019	2018	**2019**	2018	
				%	%	**%**	%	
CSPC Baike (shandong) Bio-Pharmaceutical Co., Ltd. ("Baike Shandong")	The PRC	Joint-stock limited company	RMB734,700,000	**33.62**	68.61	**66.38**	31.39	Manufacture and sales of pharmaceutical product
CSPC Medsolution (Ghana) Limited	Ghana	Limited liability	Ghanaian Cedi 437,400	**–**	–	**100**	100	Sales of pharmaceutical products
CSPC Shengxue Glucose Co., Ltd.	The PRC	Limited liability	RMB26,191,000	**–**	–	**100**	100	Manufacture and sales of glucose products
Hebei Jialing Pharmaceutical Limited	The PRC	Limited liability	RMB35,000,000	**–**	–	**60**	60	Sales of pharmaceutical products
Hebei Zhongnuo GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB100,000,000	**–**	–	**100**	100	Manufacture and sales of health supplement products
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB30,000,000	**–**	–	**100**	100	Sales of health supplement products
Shijiazhuang Enpu Anti-oncology Investment Limited	The PRC	Limited liability	RMB50,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Huanglu Medical Equipment (Taizhou) Limited	The PRC	Limited liability	RMB32,000,000	**–**	–	**100**	100	Sales of pharmaceutical equipments
CSPC Hebei Meiwei Modernised Chinese Medicine Co., Ltd	The PRC	Limited liability	RMB50,000,000	**–**	–	**100**	100	Sales of pharmaceutical products
CSPC Neimenggu Zhongnuo Pharmaceutial Co., Ltd.	The PRC	Limited liability	RMB66,867,900	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
Hebei Union Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB25,480,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
Shijiazhuang Ouyihe Medical Trading Co., Ltd.	The PRC	Limited liability	RMB200,000,000	**–**	–	**100**	100	Sales of pharmaceutical products

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital and voting power held by the Company				Principal activity
				Directly		Indirectly		
				2019 %	2018 %	2019 %	2018 %	
Shijiazhuang Zhongrun Pharmaceutical Technology Limited ("Zhongrun Technology")	The PRC	Limited liability	RMB227,744,400	88.82	88.82	10.57	10.57	Manufacture and sales of pharmaceutical products
Xinshi Biopharmaceutical Limited	The PRC	Limited liability	RMB13,280,000	–	–	100	100	Research and development of pharmaceutical products
Shanghai Qianzhong Trade Co., Ltd.	The PRC	Limited liability	RMB800,000,000	–	–	100	100	Investment holding
YZY Biopharma *(Note 4)*	The PRC	Limited liability	RMB141,428,600	–	–	39.56	39.56	Research and development of pharmaceutical products
Anwoqin	The PRC	Limited liability	USD4,000,000	100	100	–	–	Manufacture and sales of pharmaceutical products
CSPC Jiangshu Enpu Medical Equipment Limited	The PRC	Limited liability	RMB30,000,000	–	–	100	100	Sales of pharmaceutical equipment
Hebei Enshi Pharmaceutical Technology Limited	The PRC	Limited liability	RMB12,000,000	–	–	100	100	Research and development of pharmaceutical products
Conjupro Bioerapecitics Inc.	USA	Limited liability	USD9,513	–	–	100	100	Research and development of pharmaceutical products
CSPC Healthcare Inc.	USA	Limited liability	USD74,400	–	–	100	100	Sales of pharmaceutical products

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital and voting power held by the Company				Principal activity
				Directly		Indirectly		
				2019	2018	**2019**	2018	
				%	%	**%**	%	
CSPC Dophen Corporation	USA	Limited liability	USD381,440	**–**	–	**100**	100	Research and development of pharmaceutical products
Megalith Pharmaceuticals Inc.	USA	Limited liability	USD1,000	**–**	–	**100**	100	Research and development of pharmaceutical products
AlaMab Therapeutics, Inc.	USA	Limited liability	USD500	**–**	–	**85**	85	Research and development of pharmaceutical products
Novarock Biotherapeutics Limited	USA	Limited liability	USD209	**–**	–	**100**	100	Research and development of pharmaceutical products
Acquired during the year								
Yong Shun	Hong Kong	Limited liability	HK$10,000	**–**	–	**100**	–	Investment holding
JMT Biotechnology	The PRC	Limited liability	RMB70,000,000	**–**	–	**100**	–	Research and development of pharmaceutical products
JMT Biopharmaceutical	The PRC	Limited liability	RMB20,000,000	**–**	–	**100**	–	Research and development of pharmaceutical products
Shanghai Lianyin	The PRC	Limited liability	RMB20,000,000	**–**	–	**100**	–	Property management
Suzhou Jiufu	The PRC	Limited liability	RMB30,000,000	**–**	–	**100**	–	Investment holding
Established during the year								
Shanghai Yishi Pharmaceutical Technology Co., Ltd	The PRC	Limited liability	RMB10,000,000	**–**	–	**100**	–	Research and development of pharmaceutical products

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital and voting power held by the Company				Principal activity
				Directly		Indirectly		
				2019	2018	**2019**	2018	
				%	%	**%**	%	
CSPC Xingshi Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB50,000,000	**–**	–	**100**	–	Research and development of pharmaceutical products
Shanghai Runshi Pharmaceutical Technology Co., Ltd	The PRC	Limited liability	RMB10,000,000	**–**	–	**100**	–	Research and development of pharmaceutical products
CSPC Megalith Biopharmaceutial Co., Ltd	The PRC	Limited liability	RMB200,000,000	**–**	–	**100**	–	Trading of pharmaceutical products
CSPC Jiangsu Zhongcheng Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB100,000,000	**–**	–	**100**	–	Distribution of pharmaceutical products
Shanghai Haishi Biopharmaceutical Co., Ltd	The PRC	Limited liability	RMB10,000,000	**–**	–	**70**	–	Research and development of pharmaceutical products
Beijing Kangchuanglian Biopharmaceutical Technology Research Co., Ltd	The PRC	Limited liability	RMB5,000,000	**–**	–	**100**	–	Research and development of pharmaceutical products
CSPC Innovation USA Inc.	USA	Limited liability	US$50,000	**–**	–	**100**	–	Trading of pharmaceutical products
CSPC Dermay Europe GMBH	Germany	Limited liability	EUR105,000	**–**	–	**100**	–	Trading of pharmaceutical products
CSPC Deryang Europe GMBH	Germany	Limited liability	EUR50,000	**–**	–	**100**	–	Trading of pharmaceutical products
Disposal during the year								
Loyang Zhongcheng	The PRC	Limited liability	RMB10,000,000	**–**	–	**–**	100	Storage, sourcing and distribution
Puentang	The PRC	Limited liability	RMB10,000,000	**–**	–	**–**	100	Provision of clinical service

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

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019**	2018	**2019**	2018
				RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
					(Restated)		(Restated)
YZY Biopharma	The PRC	**60.44%**	60.44%	**(43,567)**	(27,921)	**357,609**	388,817
CSPC XNW	The PRC	**25%**	N/A	**55,262**	N/A	**602,691**	N/A
Individually immaterial subsidiaries with non-controlling interests						**96,142**	88,523
						1,056,442	477,340

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

YZY Biopharma

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Current assets	**19,092**	35,101
Non-current assets	**720,644**	719,756
Current liabilities	**(46,685)**	(7,020)
Non-current liabilities	**(96,961)**	(103,664)
Equity attributable to owners of the Company	**238,481**	255,356
Non-controlling interests of YZY Biopharma	**357,609**	388,817

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

YZY Biopharma *(continued)*

	For the year ended 31 December 2019 RMB'000	For the period from 1 February 2018 to 31 December 2018 RMB'000 (Restated)
Revenue	–	–
Expenses	(72,084)	(46,196)
Loss for the year/ period	(72,084)	(46,196)
Loss and total comprehensive expense attributable to owners of the Company	(28,517)	(18,275)
Loss and total comprehensive expense attributable to the non-controlling interests of YZY Biopharma	(43,567)	(27,921)
Loss and total comprehensive expense for the year/period	(72,084)	(46,196)
Dividends paid to non-controlling interests of YZY Biopharma	–	–
Net cash outflow from operating activities	(60,899)	(40,048)
Net cash outflow from investing activities	(9,671)	(29,286)
Net cash inflow (outflow) from financing activities	46,504	(73,295)
Net cash outflow	(24,066)	(142,629)

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

CSPC XNW

	2019
	RMB'000
Current assets	1,899,838
Non-current assets	869,949
Current liabilities	(335,077)
Non-current liabilities	(30,653)
Equity attributable to owners of the Company	1,801,366
Non-controlling interests of CSPC XNW	592,740
Non-controlling interests of CSPC XNW's subsidiary	9,951
Revenue	1,197,383
Expenses	(922,454)
Profit for the year	274,929
Profit and total comprehensive income attributable to owners of the Company	219,667
Profit and total comprehensive income attributable to the non-controlling interests of CSPC XNW	55,284
Loss attributable to the non-controlling interests of CSPC XNW's subsidiary	(22)
Profit and total comprehensive income for the year	274,929

Note: Shares of CSPC XNW was listed on the Shenzhen Stock Exchange with effect from 22 March 2019, the profit and total comprehensive income of CSPC XNW for the period from 22 March 2019 to 31 December 2019 was approximately RMB221,137,000 .

43. PARTICULARS OF SUBSIDIARIES *(continued)*

43.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

***CSPC XNW** (continued)*

	2019
	RMB$'000
Dividends paid to non-controlling interests of CSPC XNW	–
Net cash inflow from operating activities	315,384
Net cash outflow from investing activities	(1,073,729)
Net cash inflow from financing activities	1,074,818
Effect of foreign exchange rate changes	2,267
Net cash inflow	318,740

44. EVENTS AFTER THE REPORTING PERIOD

Except as disclosed in elsewhere of the consolidated financial statements, the Group entered into the following events after the end of the reporting period:

(a) Disposal of a subsidiary

Subsequent to the end of reporting period, the Group had entered into sales and purchase agreements with an independent third party to dispose of its 99.39% equity interest in Zhongrun Technology, which was engaged in manufacture and sales of antibiotic products in the PRC, for a total cash consideration of approximately RMB503,046,000. The Group lost control of Zhongrun Technology after the disposal has been completed on 10 March 2020.

(b) Impact of Novel Coronavirus ("COVID-19") to the Group

The outbreak of COVID-19 and the subsequent quarantine measures have had a negative impact on the operations of the Group. Although sales of some finished drug products related to the epidemic has exceeded expectation, other finished drug products were negatively affected to various degrees due to closed-off management of various places throughout China. As at the date of approval of these consolidated financial statements, the business activities of the Group have been fully resumed except for the operation in Hubei Province.

Given the dynamic nature of these circumstances and unpredictability of future development, the directors of the Company consider that the financial effects on the Group's consolidated financial statements cannot be reasonably estimated as at the date these financial statements are authorised for issue, but are expected to affect the consolidated results for the financial year ending 31 December 2020.

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Non-current assets		
Property, plant and equipment	**410**	553
Investments in subsidiaries	**8,749,844**	8,522,731
Financial assets measured at FVTOCI	**42,120**	66,261
Amounts due from subsidiaries	**1,490,285**	1,125,562
Right-of-use assets	**668**	—
	10,283,327	9,715,107
Current assets		
Other receivables	**1,093**	1,176
Amounts due from subsidiaries	**2,261,055**	2,200,333
Bank balances and cash	**109,777**	457,353
	2,371,925	2,658,862
Current liabilities		
Other payables	**55,703**	96,694
Tax liabilities	**63,691**	54,058
Lease liabilities	**704**	—
	120,098	150,752
Net current assets	**2,251,827**	2,508,110
Net assets	**12,535,154**	12,223,217
Capital and reserves		
Share capital	**10,899,412**	10,899,412
Reserves	**1,635,742**	1,323,805
Total equity	**12,535,154**	12,223,217

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Investments valuation reserve *RMB'000*	Treasury share reserve *RMB'000*	Share awards reserves *RMB'000*	Accumulated profits *RMB'000*	Total *RMB'000*
At 1 January 2018 (Restated)	3,352	–	–	816,133	819,485
Profit for the year	–	–	–	1,354,547	1,354,547
Other comprehensive income for the year	16,272	–	–	–	16,272
Total comprehensive income for the year	16,272	–	–	1,354,547	1,370,819
Dividend recognised as distribution	–	–	–	(782,875)	(782,875)
Disposal of investments in equity investments at FVTOCI	(997)	–	–	997	–
Repurchase of ordinary shares	–	–	–	(83,433)	(83,433)
Transaction costs attributable to repurchase of ordinary shares	–	–	–	(191)	(191)
At 31 December 2018 and 1 January 2019 (Restated)	**18,627**	**–**	**–**	**1,305,178**	**1,323,805**
Profit for the year	**–**	**–**	**–**	**1,392,225**	**1,392,225**
Other comprehensive expense for the year	**(20,918)**	**–**	**–**	**–**	**(20,918)**
Total comprehensive income for the year	**(20,918)**	**–**	**–**	**1,392,225**	**1,371,307**
Dividend recognised as distribution	**–**	**–**	**–**	**(965,385)**	**(965,385)**
Disposal of investments in equity investments at FVTOCI	**(516)**	**–**	**–**	**516**	**–**
Recognition of equity-settled share-based payments	**–**	**–**	**6,721**	**–**	**6,721**
Purchase of shares under share award scheme	**–**	**(100,706)**	**–**	**–**	**(100,706)**
At 31 December 2019	**(2,807)**	**(100,706)**	**6,721**	**1,732,534**	**1,635,742**

Financial Summary

	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
	(Restated)	(Restated)	(Restated)	(Restated)	
	(note)	*(note)*	*(note)*		
Results					
Revenue	9,171,949	10,575,530	13,386,479	17,716,540	**22,103,192**
Cost of sales	(4,969,143)	(5,181,498)	(5,303,764)	(5,979,187)	**(6,192,211)**
Gross profit	4,202,806	5,394,032	8,082,715	11,737,353	**15,910,981**
Other income	69,682	82,902	103,366	139,742	**243,783**
Other gains or losses	(14,347)	(6,904)	(50,953)	155,195	**48,450**
Selling and distribution expenses	(1,824,901)	(2,383,877)	(3,780,688)	(6,184,505)	**(8,712,083)**
Administrative expenses	(421,877)	(475,536)	(555,581)	(656,597)	**(748,509)**
Research and development expenses	(261,227)	(344,685)	(703,458)	(1,342,101)	**(2,000,426)**
Other expenses	(6,142)	(623)	(79,083)	(26,125)	**(142,015)**
Operating profit	1,743,994	2,265,309	3,016,318	3,822,962	**4,600,181**
Finance costs	(45,350)	(35,663)	(23,182)	(74,337)	**(32,426)**
Share of results of					
— an associate	114	—	—	—	**—**
— a joint venture	8,584	23,563	8,892	43,554	**58,407**
Loss on disposal of an associate	(7,143)	—	—	—	**—**
Profit before tax	1,700,199	2,253,209	3,002,028	3,792,179	**4,626,162**
Income tax expense	(348,101)	(446,401)	(594,252)	(733,760)	**(892,810)**
Profit for the year	1,352,098	1,806,808	2,407,776	3,058,419	**3,733,352**
Profit for the year attributable to:					
Owners of the Company	1,340,542	1,796,226	2,399,484	3,080,802	**3,714,106**
Non-controlling interests	11,556	10,582	8,292	(22,383)	**19,246**
	1,352,098	1,806,808	2,407,776	3,058,419	**3,733,352**
	RMB cents	*RMB cents*	*RMB cents*	*RMB cents*	***RMB cents***
	(Restated)	(Restated)	(Restated)	(Restated)	
Earnings per share					
Basic	22.68	30.14	39.40	49.36	**59.65**
Diluted	22.50	29.93	39.39	N/A	**59.64**

Note: Other gains or losses and research and development expenses were reclassified from other income, administrative expense and other expenses in the consolidated financial statements so as to conform with the current year presentation.

Financial Summary

	As at 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
	(Restated)	(Restated)	(Restated)	(Restated)	
Assets and liabilities					
Total assets	11,346,395	13,210,366	17,988,805	23,216,837	**26,318,322**
Total liabilities	(3,961,430)	(4,089,133)	(5,129,097)	(7,687,237)	**(6,800,157)**
Net assets	7,384,965	9,121,233	12,859,708	15,529,600	**19,518,165**
Equity attributable to owners of the Company	7,322,490	9,046,325	12,788,655	15,052,260	**18,461,723**
Non-controlling interests	62,475	74,908	71,053	477,340	**1,056,442**
Total equity	7,384,965	9,121,233	12,859,708	15,529,600	**19,518,165**