



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SIMCERE PHARMACEUTICAL GROUP LIMITED, MORGAN STANLEY ASIA LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Simcere Pharmaceutical Group Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-106, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2017, 2018 and 2019 and June 30, 2020, the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-106 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated October 13, 2020 (the “Prospectus”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement

of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as at December 31, 2017, 2018 and 2019 and June 30, 2020 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 33(b) to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

October 13, 2020

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Expressed in Renminbi)

	Note	Year ended December 31,			Six months ended June 30,	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Revenue	4	3,867,908	4,514,204	5,036,658	2,414,023	1,925,413
Cost of sales		(586,301)	(771,195)	(888,486)	(428,429)	(388,130)
Gross profit		3,281,607	3,743,009	4,148,172	1,985,594	1,537,283
Other revenue	5(a)	70,351	67,538	91,507	40,719	43,072
Other net (loss)/gain	5(b)	(175,939)	90,501	15,941	10,271	(6,447)
Research and development costs		(212,309)	(447,148)	(716,412)	(252,532)	(454,091)
Selling and distribution expenses		(2,155,662)	(2,221,757)	(2,016,222)	(1,036,868)	(628,502)
Administrative and other operating expenses		(277,469)	(290,202)	(351,676)	(155,599)	(193,464)
Profit from operations		530,579	941,941	1,171,310	591,585	297,851
Finance income	6(a)	25,146	36,253	34,724	24,889	10,851
Finance costs	6(a)	(58,441)	(47,534)	(115,955)	(64,812)	(79,576)
Net finance costs		(33,295)	(11,281)	(81,231)	(39,923)	(68,725)
Share of losses of associates	15	–	(1,616)	(8,129)	(1,518)	(4,353)
Share of losses of a joint venture	16	–	–	(135)	–	(40)
Profit before taxation	6	497,284	929,044	1,081,815	550,144	224,733
Income tax	7	(146,872)	(195,357)	(78,191)	(89,136)	(39,898)
Profit for the year/period		<u>350,412</u>	<u>733,687</u>	<u>1,003,624</u>	<u>461,008</u>	<u>184,835</u>
Attributable to:						
Equity shareholders of the Company		350,409	733,687	1,003,624	461,008	185,518
Non-controlling interest	3	–	–	–	–	(683)
Profit for the year/period		<u>350,412</u>	<u>733,687</u>	<u>1,003,624</u>	<u>461,008</u>	<u>184,835</u>
Earnings per share	11					
Basic and diluted (RMB)		<u>0.15</u>	<u>0.31</u>	<u>0.43</u>	<u>0.20</u>	<u>0.08</u>

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi)

	Note	Year ended December 31,			Six months ended June 30,	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000	2020 RMB'000
Profit for the year/period		350,412	733,687	1,003,624	461,008	184,835
Other comprehensive income for the year/period (after tax adjustments)	10					
<i>Items that will not be reclassified to profit or loss:</i>						
Financial assets at fair value through other comprehensive income (FVOCI) – net movement in fair value reserves (non-recycling), net of tax		(17,228)	(18,837)	(8,070)	3,493	133,077
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Exchange difference on translation of financial statements of entities with functional currencies other than Renminbi (“RMB”)		(14,618)	5,439	5,119	1,744	3,533
Other comprehensive income for the year/period		(31,846)	(13,398)	(2,951)	5,237	136,610
Total comprehensive income for the year/period		318,566	720,289	1,000,673	466,245	321,445
Attributable to:						
Equity shareholders of the Company		318,563	720,289	1,000,673	466,245	322,128
Non-controlling interest		3	–	–	–	(683)
Total comprehensive income for the year/period		318,566	720,289	1,000,673	466,245	321,445

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi)

		As at December 31,			As at
	Note	2017	2018	2019	June 30,
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Property, plant and equipment	12	1,175,943	1,375,462	1,869,740	2,038,514
Intangible assets	13	65,907	49,345	33,768	86,316
Goodwill	14	142,474	142,474	142,474	172,788
Interest in associates	15	–	18,384	159,364	330,124
Interest in a joint venture	16	–	–	5,065	5,025
Prepayments and deposits	22	10,772	21,653	325,090	127,781
Financial assets at fair value through other comprehensive income	17	51,531	31,242	157,189	235,732
Financial assets at fair value through profit or loss	18	769,707	859,664	901,841	897,574
Deferred tax assets	30(b)	194,663	174,483	274,698	252,835
		<u>2,410,997</u>	<u>2,672,707</u>	<u>3,869,229</u>	<u>4,146,689</u>
Current assets					
Financial assets at fair value through profit or loss	18	506,283	261,062	543,938	–
Trading securities	19	2,858	2,286	3,058	2,956
Inventories	20	187,241	233,869	248,174	294,944
Trade and bills receivables	21	697,975	951,310	1,336,916	1,651,492
Prepayments, deposits and other receivables	22	80,993	80,555	119,483	123,926
Taxation recoverable	30(a)	2,442	18,958	306	30,737
Loans to related parties and third parties	23	527,443	678,003	–	–
Pledged deposits	24(b)	194,068	240,569	290,962	904,477
Restricted deposits	24(b)	12,134	11,369	–	1,501
Cash and cash equivalents	24(a)	572,584	1,187,647	354,804	595,916
		<u>2,784,021</u>	<u>3,665,628</u>	<u>2,897,641</u>	<u>3,605,949</u>
Current liabilities					
Bank loans	25	855,580	1,979,321	1,643,978	2,279,197
Loans from related parties	26	138,855	203,852	–	–
Lease liabilities	27	19,955	13,678	26,206	37,975
Trade and bills payables	28	215,100	307,557	254,851	220,459
Other payables and accruals	29	1,262,628	1,506,967	1,417,945	1,325,363
Taxation payable	30(a)	39,673	100,025	85,525	137
		<u>2,531,791</u>	<u>4,111,400</u>	<u>3,428,505</u>	<u>3,863,131</u>
Net current assets/(liabilities)		<u>252,230</u>	<u>(445,772)</u>	<u>(530,864)</u>	<u>(257,182)</u>
Total assets less current liabilities		<u>2,663,227</u>	<u>2,226,935</u>	<u>3,338,365</u>	<u>3,889,507</u>

The accompanying notes form part of the Historical Financial Information.

		As at December 31,			As at
	Note	2017	2018	2019	June 30,
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current liabilities					
Bank loans	25	297,477	78,019	1,139,171	1,201,228
Lease liabilities	27	5,740	42,990	131,601	219,530
Deferred income	31	344,102	331,370	470,525	463,216
Deferred tax liabilities	30(b)	232,755	208,422	116,604	146,717
Other payable		2,000	1,000	–	–
		<u>882,074</u>	<u>661,801</u>	<u>1,857,901</u>	<u>2,030,691</u>
NET ASSETS		<u>1,781,153</u>	<u>1,565,134</u>	<u>1,480,464</u>	<u>1,858,816</u>
CAPITAL AND RESERVES					
Share capital	33	34	34	210	210
Reserves	33	<u>1,779,116</u>	<u>1,565,100</u>	<u>1,480,254</u>	<u>1,820,107</u>
Total equity attributable to equity shareholders of the Company		1,779,150	1,565,134	1,480,464	1,820,317
Non-controlling interest		<u>2,003</u>	–	–	<u>38,499</u>
TOTAL EQUITY		<u>1,781,153</u>	<u>1,565,134</u>	<u>1,480,464</u>	<u>1,858,816</u>

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(Expressed in Renminbi)

	Note	As at December 31,			As at
		2017	2018	2019	June 30,
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Property, plant and equipment		–	562	320	162
Interest in subsidiaries	1	2,085,661	2,100,052	2,100,071	2,100,071
Financial assets at fair value through profit or loss	18	172,174	189,837	226,474	218,938
		<u>2,257,835</u>	<u>2,290,451</u>	<u>2,326,865</u>	<u>2,319,171</u>
Current assets					
Other receivables	22	–	283,192	87,621	5,555
Loans to related parties	23	–	14,290	90,951	89,120
Cash and cash equivalents	24(a)	10	128,258	2,385	9,661
		<u>10</u>	<u>425,740</u>	<u>180,957</u>	<u>104,336</u>
Current liabilities					
Bank loans	25	175,580	173,524	174,522	176,495
Loans from related parties	26	1,860	38,604	203,904	139,976
Lease liabilities		–	298	264	109
Other payables	29	1,502	352,320	2,675	2,958
Taxation payable		–	62,500	8,300	–
		<u>178,942</u>	<u>627,246</u>	<u>389,665</u>	<u>319,538</u>
Net current liabilities		<u>(178,932)</u>	<u>(201,506)</u>	<u>(208,708)</u>	<u>(215,202)</u>
Total assets less current liabilities		<u>2,078,903</u>	<u>2,088,945</u>	<u>2,118,157</u>	<u>2,103,969</u>
Non-current liabilities					
Lease liabilities		–	258	–	–
NET ASSETS		<u>2,078,903</u>	<u>2,088,687</u>	<u>2,118,157</u>	<u>2,103,969</u>
CAPITAL AND RESERVES					
Share capital	33	34	34	210	210
Reserves	33	2,078,869	2,088,653	2,117,947	2,103,759
TOTAL EQUITY		<u>2,078,903</u>	<u>2,088,687</u>	<u>2,118,157</u>	<u>2,103,969</u>

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							Non-controlling interest	Total equity
	Share capital	Other reserve	PRC statutory reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total		
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2017	-	554,278	252,150	37,229	(3,413)	661,369	1,501,613	-	1,501,613
Changes in equity for 2017:									
Profit for the year	-	-	-	-	-	350,409	350,409	3	350,412
Other comprehensive income	-	-	-	(14,618)	(17,228)	-	(31,846)	-	(31,846)
Total comprehensive income	-	-	-	(14,618)	(17,228)	350,409	318,563	3	318,566
Appropriation of reserve	-	-	44,903	-	-	(44,903)	-	-	-
Equity settled share-based transactions	-	15,150	-	-	-	-	15,150	-	15,150
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	2,000	2,000
Deemed distribution upon the Reorganization and business combination under common control	34	(56,210)	-	-	-	-	(56,176)	-	(56,176)
Balance at December 31, 2017	34	513,218	297,053	22,611	(20,641)	966,875	1,779,150	2,003	1,781,153

The accompanying notes form part of the Historical Financial Information.

	Attributable to equity shareholders of the Company								
	Fair value								
Note	Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
	34	513,218	297,053	22,611	(20,641)	966,875	1,779,150	2,003	1,781,153
Balance at December 31, 2017 and January 1, 2018									
Changes in equity for 2018:									
Profit for the year	-	-	-	-	-	733,687	733,687	-	733,687
Other comprehensive income	-	-	-	5,439	(18,837)	-	(13,398)	-	(13,398)
Total comprehensive income	-	-	-	5,439	(18,837)	733,687	720,289	-	720,289
Appropriation of reserve	-	-	121,890	-	-	(121,890)	-	-	-
Appropriation of dividends	-	-	-	-	-	(900,000)	(900,000)	-	(900,000)
Equity settled share-based transactions	-	5,695	-	-	-	-	5,695	-	5,695
Disposal of non-controlling interest	-	-	-	-	-	-	-	(2,003)	(2,003)
Deemed distribution upon business combination under common control	-	(40,000)	-	-	-	-	(40,000)	-	(40,000)
Balance at December 31, 2018	34	478,913	418,943	28,050	(39,478)	678,672	1,565,134	-	1,565,134

The accompanying notes form part of the Historical Financial Information.

	Attributable to equity shareholders of the Company								
	Fair value								
Note	Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
	34	478,913	418,943	28,050	(39,478)	678,672	1,565,134	-	1,565,134
Balance at December 31, 2018 and January 1, 2019									
Changes in equity for 2019:									
Profit for the year	-	-	-	-	-	1,003,624	1,003,624	-	1,003,624
Other comprehensive income	-	-	-	5,119	(8,070)	-	(2,951)	-	(2,951)
Total comprehensive income	-	-	-	5,119	(8,070)	1,003,624	1,000,673	-	1,000,673
Appropriation of reserve	-	-	77,757	-	-	(77,757)	-	-	-
Appropriation of dividends	-	-	-	-	-	(635,070)	(635,070)	-	(635,070)
Ordinary shares issued	176	-	-	-	-	-	176	-	176
Disposal of financial assets at fair value through other comprehensive income	-	-	-	-	447	(447)	-	-	-
Equity settled share-based transactions	-	14,151	-	-	-	-	14,151	-	14,151
Deemed distribution upon business combination under common control	-	(464,600)	-	-	-	-	(464,600)	-	(464,600)
Balance at December 31, 2019	210	28,464	496,700	33,169	(47,101)	969,022	1,480,464	-	1,480,464

The accompanying notes form part of the Historical Financial Information.

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Other reserve RMB'000	PRC			Fair value		Non-controlling interest RMB'000
statutory reserve RMB'000			Exchange reserve RMB'000	reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000		
Balance at December 31, 2019 and January 1, 2020	210	28,464	496,700	33,169	(47,101)	969,022	-	1,480,464
Changes in equity for the six months ended June 30, 2020:								
Profit for the period	-	-	-	-	-	185,518	(683)	184,835
Other comprehensive income	-	-	-	3,533	133,077	-	-	136,610
Total comprehensive income	-	-	-	3,533	133,077	185,518	(683)	321,445
Disposal of financial assets at fair value through other comprehensive income	-	-	-	-	(12,181)	12,181	-	-
Equity settled share-based transactions	-	17,725	-	-	-	-	-	17,725
Acquisition of a subsidiary	-	-	-	-	-	-	39,182	39,182
Balance at June 30, 2020	210	46,189	496,700	36,702	73,795	1,166,721	38,499	1,858,816

The accompanying notes form part of the Historical Financial Information.

Note	Attributable to equity shareholders of the Company							Non-controlling interest	Total equity
	Share capital	Other reserve	PRC statutory reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	34	478,913	418,943	28,050	(39,478)	678,672	1,565,134	-	1,565,134
Balance at December 31, 2018 and January 1, 2019									
Changes in equity for the six months ended June 30, 2019:									
	-	-	-	-	-	461,008	461,008	-	461,008
Profit for the period									
Other comprehensive income	10	-	-	1,744	3,493	-	5,237	-	5,237
Total comprehensive income				1,744	3,493	461,008	466,245	-	466,245
Appropriation of dividends	33(b)	-	-	-	-	(635,070)	(635,070)	-	(635,070)
Ordinary shares issued	33(c)	176	-	-	-	-	176	-	176
Equity settled share-based transactions	32	-	2,498	-	-	-	2,498	-	2,498
Deemed distribution upon business combination under common control	1	-	(464,600)	-	-	-	(464,600)	-	(464,600)
Balance at June 30, 2019	210	16,811	418,943	29,794	(35,985)	504,610	934,383	-	934,383

(Unaudited)

Balance at December 31, 2018 and**January 1, 2019****Changes in equity for the six months ended June 30, 2019:**

Profit for the period

Other comprehensive income

Total comprehensive income

Appropriation of dividends

Ordinary shares issued

Equity settled share-based transactions

Deemed distribution upon business

combination under common control

Balance at June 30, 2019

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS

(Expressed in Renminbi)

	Note	Year ended December 31,			Six months ended June 30,	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Operating activities						
Cash generated from operations	24(c)	1,062,550	930,500	1,037,660	844,543	(84,383)
Tax paid	30(a)	(123,474)	(154,683)	(264,857)	(190,191)	(143,275)
Net cash generated from/ (used in) operating activities		939,076	775,817	772,803	654,352	(227,658)
Investing activities						
Payment for the acquisition of property, plant and equipment		(292,200)	(335,216)	(507,658)	(245,632)	(168,365)
Proceeds from disposal of property, plant and equipment		850	357	3,197	226	651
Increase/(decrease) in asset-related government grants		527,104	(260,595)	166,538	–	5,820
Proceeds from disposal of financial assets at fair value through other comprehensive income		–	–	1,726	–	77,863
Dividend received from financial assets at fair value through other comprehensive income		–	–	1,401	1,401	15,353
Payment for acquisition of financial assets at fair value through other comprehensive income		–	–	(137,101)	–	–
Proceeds from disposal of financial assets measured at fair value through profit or loss		804,613	1,154,026	972,980	419,682	637,898
Payment for acquisition of financial assets measured at fair value through profit or loss		(1,407,764)	(896,712)	(1,272,954)	(135,776)	(85,527)
Acquisition of subsidiaries, net		(10,200)	–	–	–	1,759
Payment for acquisition of interest in associates		–	(20,000)	(149,109)	(4,000)	–
Payment for acquisition of interest in a joint venture		–	–	(5,200)	–	–
Payments of deposits for investment		–	–	(260,351)	(50,000)	–
Proceeds from trading securities		78	49	47	–	–
New loans to related parties		(263,748)	(940,730)	(416,634)	(244,969)	–
Repayment of loans to third parties		2,199	20,000	–	–	–
Repayment of loans to related parties		119,839	783,436	900,261	48,213	–
Interest received		10,839	22,984	109,929	9,901	10,721
Net cash (used in)/generated from investing activities		(508,390)	(472,401)	(592,928)	(200,954)	496,173

The accompanying notes form part of the Historical Financial Information.

	Note	Year ended December 31,			Six months ended June 30,	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Financing activities						
Capital element of lease rental paid	24(d)	(8,046)	(27,944)	(34,163)	(18,245)	(17,915)
Interest element of lease rental paid	24(d)	(1,258)	(1,607)	(7,122)	(3,341)	(5,124)
Proceeds from new bank loans	24(d)	774,459	1,646,831	2,605,640	1,276,430	1,544,783
Repayment of bank loans	24(d)	(843,110)	(743,524)	(1,883,549)	(888,541)	(858,022)
Interest paid	24(d)	(50,281)	(37,513)	(141,191)	(61,103)	(77,527)
New loans from related parties	24(d)	34,057	296,895	11,796	–	35,506
Repayment of loans from related parties	24(d)	(640)	(238,643)	(141,793)	(31,984)	(35,506)
Increase in pledged deposits for banking facilities		(193,932)	(6,000)	(90,000)	(390,000)	(613,000)
Decrease/(increase) in cash received under share incentive scheme		(4,390)	13,849	43,910	(400)	–
Capital contribution from non-controlling interest		2,000	–	–	–	–
Disposal of non-controlling interest		–	(2,003)	–	–	–
Capital contribution from equity shareholders of the Company	33(c)	–	–	176	176	–
Dividends paid to equity shareholders of the Company	33(b)	–	(549,056)	(912,054)	(912,054)	–
Deemed distribution upon the Reorganization and business combination under common control		(56,176)	(40,000)	(464,600)	–	–
Net cash (used in)/generated from financing activities		<u>(347,317)</u>	<u>311,285</u>	<u>(1,012,950)</u>	<u>(1,029,062)</u>	<u>(26,805)</u>
Net increase/(decrease) in cash and cash equivalents		83,369	614,701	(833,075)	(575,664)	241,710
Cash and cash equivalents at the beginning of the year/period	24(a)	489,333	572,584	1,187,647	1,187,647	354,804
Effect of foreign exchange rate changes		(118)	362	232	(246)	(598)
Cash and cash equivalents at the end of the year/period	24(a)	<u>572,584</u>	<u>1,187,647</u>	<u>354,804</u>	<u>611,737</u>	<u>595,916</u>
Significant non-cash investing and financing activities						
Net settlement of amounts due from and due to related parties		<u>–</u>	<u>–</u>	<u>119,170</u>	<u>73,960</u>	<u>–</u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Simcere Pharmaceutical Group Limited (the “Company”) was incorporated in Hong Kong on November 30, 2015 as a limited liability company with its registered office at 43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (together, “the Group”) are principally engaged in the research and development, manufacturing and sales of pharmaceutical products as well as rendering promotion service of pharmaceutical products that are not manufactured by the Group.

During the Track Record Period, the abovementioned principal activities of the Group were carried out through Simcere Pharmaceutical Co., Ltd. (“Simcere Pharmaceutical,” formerly known as Nanjing Simcere Dongyuan Pharmaceutical Co., Ltd), Hainan Simcere Pharmaceutical Co., Ltd. (“Hainan Simcere”) and their subsidiaries. Both entities were held by the Company’s parent company, Simcere Pharmaceutical Holding Limited (“SPHL”). As part of the Reorganization, the Company acquired the entire equity interests in Simcere Pharmaceutical and Hainan Simcere in June and September 2017 through issuance of 19,999 and 20,000 ordinary shares to SPHL, respectively. The Reorganization only involved inserting a newly formed entity with no substantive operations. Accordingly, the Reorganization has been accounted for using a principle similar to that for a reverse acquisition, with Simcere Pharmaceutical and Hainan Simcere treated as the acquirer for accounting purposes. The Historical Financial Information has been prepared and presented as a continuation of the financial statements of Simcere Pharmaceutical and Hainan Simcere with the assets and liabilities of Simcere Pharmaceutical and Hainan Simcere recognized and measured at their historical carrying amounts prior to the Reorganization.

The Group also contemplated following business combination under common control during the Relevant Periods:

On January 26, 2017, SPHL and Hainan Simcere entered into an equity transfer agreement, pursuant to which SPHL agreed to transfer 25% equity interest in Shandong Simcere Biopharmaceutical Co., Ltd. (“Shandong Simcere”) to Hainan Simcere, at a consideration of RMB93,000,000.

On February 28, 2017, Shandong Simcere and BioSciKin Precision Medical Holding Group Co., Ltd., which was controlled by the ultimate controlling shareholder of the Group, entered into an equity transfer agreement, pursuant to which Shandong Simcere agreed to acquire the entire equity interest in Simcere Biology Medical Technology Co., Ltd. at a consideration of RMB3,176,465.

On August 27, 2018, Simcere Pharmaceutical and Nanjing BioSciKin Pharmaceutical Industrial Co., Ltd., which was controlled by the ultimate controlling shareholder of the Group, entered into an equity transfer agreement, pursuant to which Simcere Pharmaceutical agreed to acquire the entire equity interest in Jiangsu Simcere Biological Pharmaceutical Co., Ltd. at a consideration of RMB50,000,000.

On June 10, 2019, Simcere Pharmaceutical and BioSciKin Precision Medical Holding Group Co., Ltd., entered into an equity transfer agreement, pursuant to which Simcere Pharmaceutical agreed to acquire the entire equity interest in Simcere (Shanghai) Pharmaceutical Co., Ltd. at a consideration of RMB464,600,000.

On June 20, 2019, the Company and State Good Group Limited, entered into an equity transfer agreement, pursuant to which the Company agreed to acquire the entire equity interest in Oy Simcere Europe Ltd. at a consideration of EUR2,500.

On June 27, 2019, Simcere Pharmaceutical and BioSciKin Precision Medical Holding Group Co., Ltd., entered into an equity transfer agreement, pursuant to which Simcere Pharmaceutical agreed to acquire the entire equity interest in Nanjing BioSciKin Biotechnology Development Co., Ltd. at nil consideration.

As these companies were controlled by the same controlling party before and after these transactions, the transaction has been accounted for as a business combination of entities under common control. Accordingly, for the purpose of presentation of the Historical Financial Information of the Group, the net assets of the combining entities are combined using the existing book values prior to these transactions. Intra-group balances, transactions and unrealized gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for Simcere UK Limited, Oy Simcere Europe Ltd., Simcere of America Inc., Simgene LLC, Simcere Innovation, Inc. and Simgene Group Limited, as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdictions of incorporation.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities	Name of statutory auditor
			Directly	Indirectly		
Jiangsu Simcere Pharmaceutical Technology Co., Ltd. (江蘇先聲醫藥科技有限公司) (Note (a) and (c))	The People's Republic of China ("PRC") August 14, 2017	United States Dollar ("USD") 50,000,000	100%	–	Investment holding	KPMG Huazhen LLP
Simcere UK Limited (Note (b))	The United Kingdom December 20, 2017	Great Britain Pound ("GBP") 100	100%	–	Pharmaceutical related business development and cooperation	Not applicable
Oy Simcere Europe Ltd. (Note (b))	Finland September 14, 2007	Euro ("EUR") 2,500	100%	–	Pharmaceutical related business development and cooperation	Not applicable
Simcere Pharmaceutical Co., Ltd. (先聲藥業有限公司) (Note (a) and (d))	The PRC September 10, 1998	Chinese Yuan ("RMB") 380,287,820	–	100%	Manufacturing and sales of pharmaceutical products	Zhonghui Certified Public Accountants (中匯會計師事務所)/KPMG Huazhen LLP
Shanghai Xianyì Investment Management Partnership (Limited Partnership) (上海先益投資管理合夥企業(有限合伙)) (Note (a) and (c))	The PRC November 20, 2015	RMB468,000,000	–	100%	Investment holding	Anhui Dacheng Certified Public Accountants (安徽大成會計師事務所)
Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) (Note (a) and (d))	The PRC April 28, 1993	RMB221,110,900	–	100%	Manufacturing and sales of pharmaceutical products	Zhonghui Certified Public Accountants (中匯會計師事務所)/KPMG Huazhen LLP
Jiangsu Simcere Biological Pharmaceutical Co., Ltd. (江蘇先聲生物製藥有限公司) (Note (a) and (i))	The PRC July 10, 2017	RMB50,000,000	–	100%	Research and development and manufacturing of biopharmaceutical products	Zhonghui Certified Public Accountants (中匯會計師事務所)

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities	Name of statutory auditor
			Directly	Indirectly		
Wuhu Sincere Zhongren Pharmaceutical Co., Ltd. (“Wuhu Sincere”) (蕪湖先聲中人藥業有限公司) (Note (a) and (d))	The PRC September 19, 2008	RMB37,000,000	–	100%	Manufacturing and sales of pharmaceutical products	Anhui Dacheng Certified Public Accountants (安徽大成會計師事務所)
Sincere (Shanghai) Pharmaceutical Co., Ltd. (先聲(上海)醫藥有限公司) (Note (a) and (e))	The PRC December 16, 2011	RMB250,000,000	–	100%	Research and development of pharmaceutical products and property management	Zhonghui Certified Public Accountants (中匯會計師事務所)
Nanjing BioSciKin Biotechnology Development Co., Ltd. (南京百家匯生物科技發展有限公司) (Note (a) and (b))	The PRC December 13, 2018	RMB46,660,000	–	100%	Dormant	Not applicable
Sincere International Limited (Note (g))	Hong Kong June 19, 2014	USD10,000,000	–	100%	Pharmaceutical related business development and cooperation	PFR CPA Co., Limited/Yeung Man Wah & Co.
Sincere of America Inc. (Note (b))	The United States January 5, 2011	USD125	–	100%	Pharmaceutical related business development and cooperation and investment holding	Not applicable
Sincere Innovation, Inc. (Note (b))	The United States March 22, 2019	USD1	–	100%	Research and development of biopharmaceutical products	Not applicable
Jiangsu Sincere Pharmaceutical Co., Ltd. (“Jiangsu Sincere”) (江蘇先聲藥業有限公司) (Note (a) and (d))	The PRC March 28, 1995	RMB168,800,000	–	100%	Sales and distribution of pharmaceutical products and research and development of pharmaceutical products	Zhonghui Certified Public Accountants (中匯會計師事務所)
Zigong Yirong Industrial Co., Ltd. (自貢市益榮實業有限公司) (Note (a) and (b))	The PRC September 2, 2005	RMB2,380,000	–	100%	Manufacturing of pharmaceutical ingredients	Not applicable

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities	Name of statutory auditor
			Directly	Indirectly		
Shanghai Simcere Pharmaceutical Co., Ltd. (上海先聲藥業有限公司) (Note (a) and (f))	The PRC July 20, 2000	RMB154,000,000	–	100%	Sales and distribution of pharmaceutical products	Zhonghui Certified Public Accountants (中匯會計師事務所)
Shandong Simcere Biopharmaceutical Co., Ltd. (“Shandong Simcere”) (山東先聲生物製藥有限公司) (Note (a) and (d))	The PRC June 30, 1999	RMB30,128,150	–	100%	Manufacturing and sales of pharmaceutical products	Shandong Hexin Certified Public Accountants (山東和信會計師事務所)
Simcere Biology Medical Technology Co., Ltd. (先聲生物醫藥科技有限公司) (Note (a) and (b))	The PRC March 14, 2012	RMB50,000,000	–	100%	Research and development of biopharmaceutical products	Not applicable
BCY Pharm Co., Ltd. (江蘇博創園生物醫藥科技有限公司) (Note (a) and (d))	The PRC October 28, 2011	RMB24,500,000	–	52.14%	Research and development of biopharmaceutical products	Suzhou Easthigh Certified Public Accountants (蘇州東恒會計師事務所)
Simgene Group Limited (Note (b))	The Cayman Islands April 9, 2020	USD1	100%	–	Investment holding	Not applicable
Simgene LLC (Note (b))	The United States April 19, 2019	Not applicable	–	100%	Dormant	Not applicable
Simcere Industrial Co., Limited (Note (j))	Hong Kong August 28, 2017	Hong Kong dollar (“HKD”) 1	–	100%	Investment holding	Yeung Man Wah & Co.
Shanghai Xianjing Biological Technology Co., Ltd. (上海先競生物科技有限公司) (Note (a) and (b))	The PRC April 23, 2020	USD nil	–	100%	Investment holding	Not applicable
Shanghai Xianbo Biological Technology Co., Ltd. (“Shanghai Xianbo”) (上海先博生物科技有限公司) (Note (a), (b) and (m))	The PRC April 22, 2020	RMB nil	–	100%	Research and development and clinical trial of the cell therapies	Not applicable
Hainan Xianhui Industrial Co., Ltd. (海南先匯實業有限公司) (Note (a), (b) and (k))	The PRC June 1, 2016	Not applicable	–	–	Dormant	Not applicable

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities	Name of statutory auditor
			Directly	Indirectly		
Hainan Qitian Pharmaceutical Co., Ltd. (海南其天製藥有限公司) (Note (a), (h) and (l))	The PRC December 6, 1998	RMB8,400,000	-	-	Purification of pharmaceutical minerals	Hainan Haixin Accountant Affairs Office (海南海信會計師事務所)/Zhonghui Certified Public Accountants (中匯會計師事務所)

Notes:

- (a) These entities are enterprises established in the PRC. The official names of these entities are in Chinese. The English translation of the company names is for identification purpose only.
- (b) No audited statutory financial statements were prepared by those companies during the Relevant Periods.
- (c) The statutory financial statements of these companies for the periods/years ended December 31, 2017 and 2018 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC. As at the date of this report, the audit of these companies' statutory financial statements for the year ended December 31, 2019 has not been completed.
- (d) The statutory financial statements of these companies for the years ended December 31, 2017, 2018 and 2019 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC.
- (e) The statutory financial statements of these companies for the year ended December 31, 2019 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC. No audited statutory financial statements were prepared by this company for the years ended December 31, 2017 and 2018.
- (f) The statutory financial statements of this company for the years ended December 31, 2017 and 2018 were prepared in accordance with the Accounting Regulations for Business Enterprises applicable to the enterprises in the PRC. As at the date of this report, the audit of this company's statutory financial statements for the year ended December 31, 2019 has not been completed.
- (g) The statutory financial statements of these companies for the periods/years ended December 31, 2017, 2018 and 2019 were prepared in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standards issued by the HKICPA.
- (h) The statutory financial statements of this company for the years ended December 31, 2017 and 2019 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC. No audited statutory financial statements were prepared by this company for the year ended December 31, 2018.
- (i) The statutory financial statements of this company for the years ended December 31, 2018 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC. No audited statutory financial statements were prepared by this company for the period ended December 31, 2017. As at the date of this report, the audit of this company's statutory financial statements for the year ended December 31, 2019 has not been completed.

- (j) The statutory financial statements of this company for the periods/years ended December 31, 2017 and 2018 were prepared in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standards issued by the HKICPA. As at the date of this report, the audit of this company's statutory financial statements for the year ended December 31, 2019 has not been completed.
- (k) This company completed its deregistration on January 22, 2019.
- (l) The Group transferred 100% equity interest of this company to Hainan Simcere BioSciKin Technology Development Co., Ltd., a related party controlled by the ultimate controlling shareholder of the Group, at nil consideration on April 29, 2020.
- (m) Under the contractual arrangements between the Group and the registered shareholders of Shanghai Xianbo in April 2020, the Group acquired effective control over the financial and operational management and results of Shanghai Xianbo and is entitled to all the economic benefits derived from the operations of Shanghai Xianbo. Therefore, Shanghai Xianbo is a consolidated subsidiary of the Group.

All companies now comprising the Group have adopted December 31 as their financial year end date.

As at June 30, 2020, the Group had net current liabilities of RMB257,182,000. In view of these circumstances, the directors of the Company have given consideration to the future liquidity of the Group and its available sources of finance including banking facilities in assessing whether the Group will have sufficient financial resources to continue as a going concern. The Historical Financial Information has been prepared on a going concern basis, because the directors of the Company are of the opinion that based on the Group's ability to renew or refinance the banking facilities upon maturity, the Group's future capital expenditure in respect of its non-cancellable capital commitments and the working capital forecast of the Group for the twelve months ending June 30, 2021 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due for at least twelve months from June 30, 2020. Accordingly, the directors of the Company consider it is appropriate to prepare the Historical Financial Information on a going concern basis.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued a number of amendments to HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs, including HKFRS 9, *Financial Instruments* and HKFRS 15, *Revenue from Contracts with Customers*, which are mandatory for the financial year beginning January 1, 2018, and HKFRS 16 *Leases*, which is mandatory for the financial period beginning on January 1, 2019, to the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2020 and not adopted in the Historical Financial Information are set out in Note 40.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information is presented in RMB, rounded to the nearest thousand, unless otherwise indicated.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies as set out below.

(b) Use of estimates and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Subsidiaries and non-controlling interest

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interest represents the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interest and the equity shareholders of the Company. Loans from holders of non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Associates and a joint venture

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the Historical Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(j)(ii)). Any the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the consolidated statements of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statements of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and the associates or the joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

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 that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

(e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(j)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and a joint venture, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 37(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(t)(iv)).
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in Note 2(t)(vi).

(g) Property, plant and equipment

Property, plant and equipment are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value). Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life
Leasehold land (<i>see Note 2(i)</i>)	over the period of leases
Plant and buildings	5 – 20 years or remaining lease terms
Machinery and equipment	3 – 10 years
Furniture, fixtures and office equipment	3 – 5 years
Motor vehicles	5 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents properties under construction and machinery and equipment pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 2(j)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation policies specified above.

No depreciation is provided in respect of construction in progress.

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads. Other development expenditure is recognized as an expense in the period in which it is incurred.

Intangible assets that are acquired through business combination are stated at cost (the acquisition date fair value) less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful life
Developed technology	10 – 16 years
Good Supply Practice (“GSP”) licenses	3 – 5 years
Product trademarks	6 – 10 years

The developed technology and product trademarks of the Group are associated with different products arising from various business combinations and acquisitions from third parties. The useful lives of developed technology and product trademarks are estimated based on the remaining period of economic benefits to be derived from the respective products to be produced relying on the acquired developed technology and product trademarks. The Group estimates the period of economic benefits to be derived from the respective products based on the expected time period required for a pharmaceutical drug development from its discovery to commercialization and other factors, including the patent protection period, the historical life of similar products, the characteristics of such technologies, their update frequency and market requirement and competition. Based on such assessment, the Group considers that the maximum economic useful life of developed technology and product trademarks held by the Group is 16 years. As the different products have different commercialization commencement dates, acquisition dates by the Group and the expected lifespan of economic benefits, the remaining useful life of the Group's developed technology and product trademarks varies at a range of 10 – 16 and 6 – 10 years, respectively.

The useful lives of GSP licenses are estimated based on the remaining valid period of the GSP licenses.

Both the period and method of amortization are reviewed annually.

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(j)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and presents 'lease liabilities' separately in the consolidated statement of financial position.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with Note 2(t)(iii).

(j) Credit losses and impairment of assets**(i) Credit losses from financial instruments**

The Group recognizes a loss allowance for expected credit losses (ECLs) on financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties and third parties).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is twelve months past due. 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 since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognized in accordance with Note 2(t)(iv) 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 the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets;
- intangible assets;
- goodwill;
- interest in associates and a joint venture; and
- interest in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use (if determinable).

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(k) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress, costs include direct labour and appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(l) Contract liabilities

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see Note 2(t)). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(m)).

(m) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(j)(i)).

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(j)(i).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see Note 2(v)).

(p) Trade and other payables

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to local retirement schemes pursuant to the relevant labour rules and regulations in the jurisdictions in which the Group's subsidiaries located are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(ii) Share-based payments*Restricted shares*

The fair value of share-based payment awards (i.e. restricted shares) granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value of the restricted shares is measured at grant date by reference to the market price or the valuer's valuation of the underlying shares. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the restricted shares, the total estimated fair value of the restricted shares is spread over the vesting period, taking into account the probability that the restricted shares will vest.

During the vesting period, the number of restricted shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of restricted shares that vest (with a corresponding adjustment to the capital reserve).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of pharmaceutical products

Revenue is recognized when the customer takes possession of and accepts the products.

(ii) Promotion service income

Promotion service income is recognized when the Group satisfies its promise to arrange for the pharmaceutical products to be provided by supplier to the customer.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are presented in the consolidated statements of financial position by setting up the grant as deferred income and consequently are effectively recognized in profit or loss on a systematic basis over the useful life of the asset.

(vi) Dividends

Dividend income is recognized when the shareholder's right to receive payment is established.

(u) Translation of foreign currencies

Foreign currency transactions during the Relevant Periods are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

(v) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**Key sources of estimation uncertainty**

Notes 14, 17, 18, 19, 37(e) and 32 contains information about the assumptions and their risk factors relating to goodwill impairment, fair value of financial assets and fair value of restricted shares granted. Other key sources of estimation uncertainty are as follows:

(i) *Impairments of non-financial assets*

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered “impaired,” and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(ii) *Net realizable value of inventories*

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group’s net assets value. The Group reassesses these estimates annually.

(iii) *Impairment of trade and other receivables*

The Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortized cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset’s carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(iv) *Depreciation and amortization*

Items of property, plant and equipment and intangible assets are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group’s historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortization expense for future periods are adjusted if there are significant changes from previous estimates.

(v) *Income tax*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognized for temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and deferred tax assets are recognized only if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are research and development, manufacturing and sales of pharmaceutical products as well as rendering promotion service of pharmaceutical products that are not manufactured by the Group.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales of pharmaceutical products	3,836,979	4,309,148	4,800,323	2,283,550	1,803,398
Promotion service income	30,929	205,056	236,335	130,473	122,015
	<u>3,867,908</u>	<u>4,514,204</u>	<u>5,036,658</u>	<u>2,414,023</u>	<u>1,925,413</u>

The Group's revenue from contracts with customers were recognized at point in time for the Relevant Periods.

The Group's customer base is diversified and no customers with whom transactions have exceeded 10% of the Group's revenues for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020. Details of concentrations of credit risk arising from the customers are set out in Note 37(a).

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for goods such that information about revenue expected to be recognized in the future is not disclosed in respect of revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an expected duration of one year or less.

(b) Segment reporting

Operating segments are identified on the basis of internal reports that the Group's most senior executive management reviews regularly in allocating resources to segments and in assessing their performances.

The Group's most senior executive management makes resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

HKFRS 8, Operating Segments, requires identification and disclosure of information about an entity's geographical areas, regardless of the entity's organization (i.e. even if the entity has a single reportable segment). The Group operates within one geographical location because primarily all of its revenue was generated in the PRC and all of its non-current operating assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

5 OTHER REVENUE AND OTHER NET (LOSS)/GAIN

(a) Other revenue

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Government grants (Note)	52,252	47,029	65,885	28,755	32,514
Rental income	5,024	12,050	15,198	6,908	5,497
Gain on transfer of technology know-how	9,871	–	–	–	–
Property management income	854	1,783	3,911	1,772	1,441
Consulting and technology service income	789	4,580	2,614	535	1,383
Others	1,561	2,096	3,899	2,749	2,237
	<u>70,351</u>	<u>67,538</u>	<u>91,507</u>	<u>40,719</u>	<u>43,072</u>

Note: During the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, the Group received unconditional government grants of RMB37,592,000, RMB35,258,000, RMB40,568,000, RMB20,419,000 and RMB16,041,000, respectively, as rewards of the Group's contribution to technology innovation and regional economic development.

During the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, the Group received conditional government grants of RMB264,509,000, RMB2,000,000, RMB166,538,000, RMB nil and RMB5,820,000, respectively as subsidies for plant relocation and construction and recognized such grants of RMB3,187,000, RMB3,137,000, RMB10,255,000, RMB2,026,000 and RMB16,473,000, respectively, in the consolidated statements of profit or loss when related conditions were satisfied. During the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, the Group received conditional government grants of RMB1,300,000, RMB71,000, RMB3,700,000, RMB2,000,000 and RMB4,590,000, respectively as encouragement of technology research and development and recognized such type of grants of RMB11,473,000, RMB8,634,000, RMB15,062,000, RMB6,310,000 and RMB nil, respectively, in the consolidated statements of profit when related conditions were satisfied.

(b) Other net (loss)/gain

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net foreign exchange (loss)/gain	(10,322)	9,811	(1,633)	(2,102)	(19,867)
Net gain/(loss) on disposal of property, plant and equipment	229	(456)	(3,483)	36	(3,053)
Net realized and unrealized gains/(losses) on trading securities	649	(523)	819	666	(102)
Net realized and unrealized (losses)/gains on financial assets at fair value through profit or loss	(166,495)	81,669	20,238	11,671	13,261
Gain on disposal of a subsidiary	–	–	–	–	1,552
Gain arising from business combination (Note 38)	–	–	–	–	1,762
	<u>(175,939)</u>	<u>90,501</u>	<u>15,941</u>	<u>10,271</u>	<u>(6,447)</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Interest income from bank deposits	(3,906)	(5,922)	(13,373)	(9,901)	(10,721)
Interest income from loans to related parties	(20,060)	(30,224)	(21,351)	(14,988)	(130)
Interest income from loans to third parties	(1,180)	(107)	—	—	—
Finance income	<u>(25,146)</u>	<u>(36,253)</u>	<u>(34,724)</u>	<u>(24,889)</u>	<u>(10,851)</u>
Interest expenses on bank loans	53,171	40,545	108,661	60,719	78,937
Interest expenses on loans from related parties	4,012	6,745	6,606	3,545	298
Interest expenses on lease liabilities	1,258	1,607	7,122	3,341	5,124
Less: borrowing costs capitalized as construction in progress (Note)	—	(1,363)	(6,434)	(2,793)	(4,783)
Finance costs	<u>58,441</u>	<u>47,534</u>	<u>115,955</u>	<u>64,812</u>	<u>79,576</u>
Net finance costs	<u>33,295</u>	<u>11,281</u>	<u>81,231</u>	<u>39,923</u>	<u>68,725</u>

Note: The borrowing costs for the years ended December 31, 2018 and 2019 and the six months ended June 30, 2019 and 2020 have been capitalized at rate 4.35%.

(b) Staff costs

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Salaries, wages and other benefits	472,309	578,170	884,604	406,713	497,628
Contributions to defined contribution retirement plans	33,421	47,583	49,421	24,768	9,426
Equity settled share-based payment expenses (Note 32)	15,150	5,695	14,151	2,498	17,725
	<u>520,880</u>	<u>631,448</u>	<u>948,176</u>	<u>433,979</u>	<u>524,779</u>

(c) Other items

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of inventories recognized as expenses (Note i)	510,522	571,293	677,361	312,832	295,560
Depreciation charge					
– owned property, plant and equipment	69,153	77,673	105,818	38,000	75,421
– right-of-use assets	17,953	25,768	41,114	20,951	22,412
Amortization of intangible assets	17,038	16,562	15,577	7,953	8,152
Research and development costs (Note ii)	212,309	447,148	716,412	252,532	454,091
Provision for impairment loss on trade and other receivables	4,441	1,614	1,657	4,302	7,662
(Reversal of)/provision for write-down of inventories	(923)	2,567	5,745	1,811	5,913
Auditors' remuneration					
– audit services	1,480	1,380	3,100	–	700
– non-audit services	–	–	183	–	–
Listing expenses	–	–	–	–	13,880

Notes:

- (i) Cost of inventories recognized as expenses includes amounts relating to staff costs, depreciation and amortization expenses, provision for write-down of inventories, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.
- (ii) Research and development costs include amounts relating to staff costs, depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax					
<i>PRC Corporate Income Tax</i>					
Provision for the year/period	112,041	97,911	197,100	137,745	29,537
Under/(over)-provision in respect of prior years	2,323	608	609	525	(4,138)
	114,364	98,519	197,709	138,270	25,399

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000	2020 RMB'000
Deferred tax					
Origination and reversal of temporary differences (Note 30(b))	32,508	96,838	(119,518)	(49,134)	14,499
Total income tax expense	<u>146,872</u>	<u>195,357</u>	<u>78,191</u>	<u>89,136</u>	<u>39,898</u>

Notes:

- (i) Pursuant to the income tax rules and regulations of Hong Kong, the Company and the subsidiary in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020. During the Relevant Periods, the Company and the Group's subsidiary in Hong Kong did not have assessable profits which are subject to profit tax in Hong Kong.

- (ii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax ("CIT") at a statutory rate of 25%, except for the following specified subsidiaries:

According to the Administrative Measures for Determination of High-Tech Enterprises (Guokefahuo [2016] No. 32), Hainan Simcere obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2017 to 2019.

Shandong Simcere obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2017 to 2019.

Wuhu Simcere obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2017 to 2019.

Hainan Simcere, Shandong Simcere and Wuhu Simcere are currently applying for an extension of such preferential income tax treatment for another three years from 2020 to 2022. The directors of the Company believe that these companies will continue to enjoy such preferential tax rate of 15% pursuant to current applicable PRC tax laws and regulations.

Simcere Pharmaceutical obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2015 to 2017. Simcere Pharmaceutical renewed the qualification in 2018 and was entitled to a preferential income tax rate of 15% from 2018 to 2020.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC tax resident enterprises are levied withholding tax on dividends from their PRC resident investees for intra-group earnings accumulated beginning on January 1, 2008, at 10% (unless reduced by tax treaties or similar arrangements), respectively. Undistributed earnings generated prior to 2008 are exempt from such withholding tax.

Under the arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution). The Group met the beneficial owner requirements in 2019 and were entitled to a preferential rate of 5% since 2019.

- (iii) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiaries in the United States was liable to United States federal income tax determined by income ranges and state income tax during the Relevant Periods. The Group's subsidiaries in the United States did not have assessable profits during the Relevant Periods.

- (iv) Pursuant to the income tax rules and regulations of the United Kingdom, the Group's subsidiary in the United Kingdom was liable to the United Kingdom corporation tax at a rate of 19% during the Relevant Periods.
- (v) Pursuant to the income tax rules and regulations of Finland, the Group's subsidiary in Finland was liable to Finnish income tax at a rate of 20% during the Relevant Periods.
- (vi) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

(b) Reconciliation between tax expense and profit before taxation at applicable tax rates:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before taxation	<u>497,284</u>	<u>929,044</u>	<u>1,081,815</u>	<u>550,144</u>	<u>224,733</u>
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25%	124,321	232,261	270,454	137,536	56,183
Tax effect of different tax rates	(87,255)	(80,015)	(134,456)	(60,963)	(30,429)
Tax effect of non-deductible expenses (Note)	23,126	16,684	21,389	5,939	12,325
Tax effect of non-taxable income	(6,070)	(18,746)	(6,340)	(2,633)	(3,023)
Tax effect of tax losses not recognized	7,570	6,896	6,293	2,717	29,682
Tax effect of temporary differences not recognized	33,086	407	2,553	356	738
Tax effect of bonus deduction for research and development costs	(9,987)	(37,504)	(54,169)	(16,893)	(25,527)
Tax effect of change in tax rates	(2,696)	7,900	10,630	3,487	3,113
Tax effect of previously unrecognized tax losses now utilized	(10)	–	(152)	(114)	(296)
Tax effect of previously unrecognized temporary differences now utilized	–	–	–	–	(2,913)
Provision/(reversal) of withholding tax on undistributed profits	62,464	66,866	(38,620)	19,179	4,183
Under/(over)-provision in prior years	<u>2,323</u>	<u>608</u>	<u>609</u>	<u>525</u>	<u>(4,138)</u>
Actual tax expense	<u>146,872</u>	<u>195,357</u>	<u>78,191</u>	<u>89,136</u>	<u>39,898</u>

Note: Tax effect of non-deductible expenses mainly represented tax effect of equity settled share-based payment expenses, losses on financial assets with capital in nature, expenses incurred by entities without assessable profits and other non-deductible expenses.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments RMB'000	2017 Total RMB'000
Executive directors							
Ren Jinsheng	-	1,491	-	40	1,531	6,156	7,687
Wan Yushan (appointed on November 19, 2019)	-	789	-	40	829	244	1,073
	-	2,280	-	80	2,360	6,400	8,760
Executive directors							
Ren Jinsheng	-	1,495	-	43	1,538	-	1,538
Wan Yushan (appointed on November 19, 2019)	-	881	-	43	924	108	1,032
	-	2,376	-	86	2,462	108	2,570
Executive directors							
Ren Jinsheng	-	1,496	360	38	1,894	-	1,894
Wan Yushan (appointed on November 19, 2019)	-	1,032	-	38	1,070	471	1,541
Zhang Cheng (appointed on November 19, 2019)	-	1,374	1,332	11	2,717	815	3,532
Tang Renhong (appointed on November 19, 2019)	-	820	659	32	1,511	643	2,154
Non-Executive directors							
Zhao John Huan (appointed on November 19, 2019)	-	-	-	-	-	-	-
Zhang Yi (appointed on November 19, 2019)	-	-	-	-	-	-	-
Independent non-executive directors							
Wang Xinhua (appointed on November 19, 2019)	30	-	-	-	30	-	30
Song Ruilin (appointed on November 19, 2019)	30	-	-	-	30	-	30
Wang Jianguo (appointed on November 19, 2019)	30	-	-	-	30	-	30
	90	4,722	2,351	119	7,282	1,929	9,211

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments	Six months ended June 30, 2019 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Executive directors							
Ren Jinsheng	–	749	180	22	951	–	951
Wan Yushan (appointed on November 19, 2019)	–	495	–	22	517	35	552
Tang Renhong (appointed on November 19, 2019)	–	187	134	8	329	–	329
	–	1,431	314	52	1,797	35	1,832

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments	Six months ended June 30, 2020 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Ren Jinsheng	–	745	180	9	934	–	934
Wan Yushan	–	535	340	9	884	827	1,711
Zhang Cheng	–	1,705	1,620	9	3,334	1,631	4,965
Tang Renhong	–	627	409	18	1,054	1,607	2,661
Non-Executive directors							
Zhao John Huan	–	–	–	–	–	–	–
Zhang Yi (resigned on June 1, 2020)	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Xinhua	180	–	–	–	180	–	180
Song Ruilin	180	–	–	–	180	–	180
Wang Jianguo	180	–	–	–	180	–	180
	540	3,612	2,549	45	6,746	4,065	10,811

Mr. Wan Yushan, Mr. Zhang Cheng and Dr. Tang Renhong were appointed as executive directors of the Company on November 19, 2019. All the executive directors are key management personnel of the Group during the Relevant Periods and their remuneration disclosed above include those for services rendered by them as key management personnel.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one, zero, one, zero and one is director during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively, whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Salaries, allowances and benefits in kind	7,929	9,835	8,544	5,739	6,800
Discretionary bonuses	1,800	2,295	5,012	3,374	1,926
Retirement scheme contributions	118	179	103	77	34
Share-based payments	1,526	1,390	2,095	232	3,601
	<u>11,373</u>	<u>13,699</u>	<u>15,754</u>	<u>9,422</u>	<u>12,361</u>

The emoluments of the four, five, four, five and four individuals with the highest emoluments during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively, are within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
				<i>(unaudited)</i>	
RMB1,000,001 to RMB2,000,000	1	–	–	3	1
RMB2,000,001 to RMB3,000,000	1	4	–	2	2
RMB3,000,001 to RMB4,000,000	2	1	2	–	–
RMB4,000,001 to RMB5,000,000	–	–	2	–	–
RMB6,000,001 to RMB7,000,000	–	–	–	–	1

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	Exchange differences on translation of financial statements <i>RMB'000</i>	Financial assets at fair value through other comprehensive income – net movement in fair value reserves (non-recycling) <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended December 31, 2017			
Before-tax amount	(14,618)	(23,588)	(38,206)
Tax benefit	–	6,360	6,360
	<u> </u>	<u> </u>	<u> </u>
Net-of-tax amount	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
For the year ended December 31, 2018			
Before-tax amount	5,439	(20,290)	(14,851)
Tax benefit	–	1,453	1,453
	<u> </u>	<u> </u>	<u> </u>
Net-of-tax amount	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
For the year ended December 31, 2019			
Before-tax amount	5,119	(9,348)	(4,229)
Tax benefit	–	1,278	1,278
	<u> </u>	<u> </u>	<u> </u>
Net-of-tax amount	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
For the six months ended June 30, 2020			
Before-tax amount	3,533	156,404	159,937
Tax expense	–	(23,327)	(23,327)
	<u> </u>	<u> </u>	<u> </u>
Net-of-tax amount	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
For the six months ended June 30, 2019 (unaudited)			
Before-tax amount	1,744	4,205	5,949
Tax expense	–	(712)	(712)
	<u> </u>	<u> </u>	<u> </u>
Net-of-tax amount	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>

11 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB350,409,000, RMB733,687,000, RMB1,003,624,000, RMB461,008,000 and RMB185,518,000 for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, and the weighted average number of ordinary shares in issue after adjusting the share issue at nominal value pursuant to a written resolution of the board of directors of the Company passed on June 21, 2019, calculated as follows:

Weighted average number of ordinary shares

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019 <i>(unaudited)</i>	2020
Ordinary shares at January 1	1	40,000	40,000	40,000	40,000
Effect of shares issued upon Reorganization under common control <i>(Note i)</i>	39,999	–	–	–	–
Effect of shares issued at nominal value <i>(Note ii)</i>	<u>2,345,077,618</u>	<u>2,345,077,618</u>	<u>2,345,077,618</u>	<u>2,345,077,618</u>	<u>2,345,077,618</u>
Weighted average number of ordinary shares at December 31	<u>2,345,117,618</u>	<u>2,345,117,618</u>	<u>2,345,117,618</u>	<u>2,345,117,618</u>	<u>2,345,117,618</u>

Notes:

- (i) As described in Note 33(c)(i), 39,999 ordinary shares were issued to the immediate parent of the Company, SPHL, in exchange of the equity interest of Simcere Pharmaceutical and Hainan Simcere during the year ended December 31, 2017 as part of the Reorganization. The number of ordinary shares outstanding before the shares issue was adjusted for the proportionate increase in the number of ordinary shares outstanding, as if the shares issue had occurred at the beginning of 2017.
- (ii) The number of ordinary shares outstanding before the shares issue at nominal value (Note 33(c)(ii)) was adjusted for the proportionate increase in the number of ordinary shares outstanding without a corresponding change in resources, as if the shares issue at nominal value had occurred at the beginning of the earliest period presented.

Diluted earnings per share is equal to basic earnings per share as there were no dilutive potential shares outstanding for the Relevant Periods.

12 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold Land RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At January 1, 2017	147,845	485,852	375,763	64,634	38,872	159,763	1,272,729
Additions	51,861	24,715	62,714	7,019	1,392	208,418	356,119
Transfers	–	–	1,580	–	–	(1,580)	–
Disposals	–	–	(3,212)	(1,156)	(2,983)	–	(7,351)
At December 31, 2017 and January 1, 2018	199,706	510,567	436,845	70,497	37,281	366,601	1,621,497
Additions	–	65,841	39,384	12,213	1,919	184,238	303,595
Transfers	–	49,182	51,513	672	252	(101,619)	–
Disposals	–	–	(12,501)	(3,980)	(4,585)	–	(21,066)
At December 31, 2018 and January 1, 2019	199,706	625,590	515,241	79,402	34,867	449,220	1,904,026
Additions	22,890	199,897	112,359	18,671	1,385	292,865	648,067
Transfers	–	337,297	118,484	4,479	–	(460,260)	–
Disposals	–	(2,164)	(84,116)	(14,481)	(4,172)	–	(104,933)
At December 31, 2019 and January 1, 2020	222,596	1,160,620	661,968	88,071	32,080	281,825	2,447,160
Business combination (Note 38)	–	–	–	174	–	–	174
Additions	116	142,242	49,190	28,537	655	49,397	270,137
Transfers	–	29,283	37,026	19,929	–	(86,238)	–
Disposals	–	(6,630)	(16,784)	(3,070)	(2,252)	–	(28,736)
At June 30, 2020	222,712	1,325,515	731,400	133,641	30,483	244,984	2,688,735
Accumulated depreciation:							
At January 1, 2017	14,228	53,118	219,466	44,700	33,666	–	365,178
Charge for the year	3,961	37,361	38,323	6,131	1,330	–	87,106
Written back on disposals	–	–	(2,838)	(909)	(2,983)	–	(6,730)
At December 31, 2017 and January 1, 2018	18,189	90,479	254,951	49,922	32,013	–	445,554
Charge for the year	4,146	46,137	42,876	8,688	1,594	–	103,441
Written back on disposals	–	–	(11,965)	(3,881)	(4,585)	–	(20,431)

	Leasehold Land RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At December 31, 2018 and January 1, 2019	22,335	136,616	285,862	54,729	29,022	–	528,564
Charge for the year	4,141	76,456	54,003	10,543	1,789	–	146,932
Written back on disposals	–	(442)	(79,495)	(13,986)	(4,153)	–	(98,076)
At December 31, 2019 and January 1, 2020	26,476	212,630	260,370	51,286	26,658	–	577,420
Charge for the period	2,339	51,937	32,725	9,845	987	–	97,833
Written back on disposals	–	(4,576)	(15,491)	(2,713)	(2,252)	–	(25,032)
At June 30, 2020	28,815	259,991	277,604	58,418	25,393	–	650,221
Net book value:							
At December 31, 2017	181,517	420,088	181,894	20,575	5,268	366,601	1,175,943
At December 31, 2018	177,371	488,974	229,379	24,673	5,845	449,220	1,375,462
At December 31, 2019	196,120	947,990	401,598	36,785	5,422	281,825	1,869,740
At June 30, 2020	193,897	1,065,524	453,796	75,223	5,090	244,984	2,038,514

Notes:

- (i) As at December 31, 2017, 2018 and 2019 and June 30, 2020, property certificates of certain properties and leasehold land with an aggregate net book value of RMB115,738,000, RMB112,885,000, RMB349,352,000 and RMB339,878,000, respectively, are yet to be obtained.
- (ii) Certain property, plant and equipment of the Group were pledged as security for bank loans. Details are set out as follows:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Leasehold land	15,263	14,910	53,991	53,293
Plant and buildings	185,825	176,480	224,935	220,923
Aggregate carrying value of pledged property, plant and equipment	201,088	191,390	278,926	274,216

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Leasehold land	181,517	177,371	196,120	193,897
Plant and buildings	19,750	57,045	155,374	252,914
	<u>201,267</u>	<u>234,416</u>	<u>351,494</u>	<u>446,811</u>

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	At December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Depreciation charge of right-of-use assets by class of underlying asset:					
Leasehold land	3,961	4,146	4,141	2,205	2,339
Plant and buildings	13,992	21,622	36,973	18,746	20,073
	<u>17,953</u>	<u>25,768</u>	<u>41,114</u>	<u>20,951</u>	<u>22,412</u>
Interest on lease liabilities (Note 6(a))	1,258	1,607	7,122	3,341	5,124
Expense relating to short-term leases	<u>3,034</u>	<u>6,260</u>	<u>7,558</u>	<u>4,501</u>	<u>5,312</u>

During the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, additions to right-of-use assets were RMB76,199,000, RMB58,917,000, RMB158,192,000 and RMB117,729,000, respectively. The additions included the increase of leasehold land of RMB51,861,000, RMB nil, RMB22,890,000 and RMB116,000, respectively, during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 and the remainder primarily related to the capitalized lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 24(e) and 27, respectively.

13 INTANGIBLE ASSETS

	Developed technology <i>RMB'000</i>	GSP licenses <i>RMB'000</i>	Product trademarks <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At January 1, 2017, December 31, 2017, December 31, 2018 and December 31, 2019	246,459	343	4,303	251,105
Business combination (<i>Note 38</i>)	60,700	–	–	60,700
At June 30, 2020	307,159	343	4,303	311,805
Accumulated amortization:				
At January 1, 2017	163,615	242	4,303	168,160
Charge for the year	16,937	101	–	17,038
At December 31, 2017 and January 1, 2018	180,552	343	4,303	185,198
Charge for the year	16,562	–	–	16,562
At December 31, 2018 and January 1, 2019	197,114	343	4,303	201,760
Charge for the year	15,577	–	–	15,577
At December 31, 2019 and January 1, 2020	212,691	343	4,303	217,337
Charge for the period	8,152	–	–	8,152
At June 30, 2020	220,843	343	4,303	225,489
Net book value:				
At December 31, 2017	65,907	–	–	65,907
At December 31, 2018	49,345	–	–	49,345
At December 31, 2019	33,768	–	–	33,768
At June 30, 2020	86,316	–	–	86,316

The Group's intangible assets as at December 31, 2017, 2018 and 2019 represent developed technology, GSP licenses and product trademarks acquired by the Group in connection with the acquisitions of the Group's major operating subsidiaries in the PRC prior to the Relevant Periods.

The addition of the Group's intangible assets during the six months ended June 30, 2020 represent developed technology acquired by the Group in connection with the acquisition of a subsidiary BCY Pharm Co., Ltd. Further details of the business combination are set out in Note 38.

14 GOODWILL

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Balance at the beginning of the year/period	142,474	142,474	142,474	142,474
Business combination (Note 38)	—	—	—	30,314
	<u>142,474</u>	<u>142,474</u>	<u>142,474</u>	<u>172,788</u>
Balance at the end of the year/period	<u>142,474</u>	<u>142,474</u>	<u>142,474</u>	<u>172,788</u>

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the reportable segment. Goodwill is allocated to the Group's CGU as follows:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Pharmaceutical business	142,474	142,474	142,474	142,474
BCY Pharm Co., Ltd.	—	—	—	30,314
	<u>142,474</u>	<u>142,474</u>	<u>142,474</u>	<u>172,788</u>
	<u>142,474</u>	<u>142,474</u>	<u>142,474</u>	<u>172,788</u>

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash-flows beyond the five-year period are extrapolated using zero growth rate. The cash flows for the pharmaceutical business CGU are discounted using pre-tax discount rate of 15.2%, 14.3% and 15.0% as at December 31, 2017, 2018 and 2019. Key assumptions used for the value in use calculations are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") growth rate in the five-year projection period. The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the CGU. Budgeted EBITDA growth rate in the five-year projection period was estimated taking into account revenue, gross margins and operating expenses based on past performance and its expectation for market development.

The estimated recoverable amount of the pharmaceutical business CGU exceeded its carrying amount as at December 31, 2017, 2018 and 2019 by approximately RMB6,433,563,000, RMB6,167,622,000 and RMB5,705,333,000, respectively.

Management performed sensitivity analysis of two key assumptions that could significantly affect the recoverable amount. The following table shows the percentage point by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for carrying amount to equal recoverable amount (in percentage point)

	2017	2018	2019
Pharmaceutical business			
Increase in discount rate	+74.3%	+37.2%	+32.7%
Decrease in budgeted EBITDA growth rate (average of next five years)	-26.9%	-21.6%	-21.4%

The Group performs annual impairment test on goodwill at the end of the reporting year. The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as at December 31, 2017, 2018 and 2019. Accordingly, no impairment loss for goodwill has been recognized in the consolidated statements of profit or loss. Also, based on the sensitivity analysis above, the Group concluded that a reasonably possible change in key parameters would not cause the carrying amount of the CGU to exceed its recoverable amount as at December 31, 2017, 2018 and 2019. During the six months ended June 30, 2020, the directors of the Company did not identify any significant adverse changes in the operation of the Group and therefore, concluded there was no impairment indicator of goodwill at June 30, 2020.

15 INTEREST IN ASSOCIATES

The following list contains the particulars of the Group's associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Nanjing Bioheng Biotech Co., Ltd. ("Nanjing Bioheng") (Note i)	Incorporated	The PRC	RMB8,947,296	16%	–	16%	Research and development of biopharmaceutical products
BCY Pharm Co., Ltd. (Note ii)	Incorporated	The PRC	RMB24,500,000	52%	–	52%	Research and development of biopharmaceutical products
Xuancheng Menovo Pharmaceutical Co., Ltd. ("Xuancheng Menovo") (Note iii)	Incorporated	The PRC	RMB196,078,500	49%	–	49%	Development and manufacturing of pharmaceutical ingredients
3D Biological Medicines (Shanghai) Co., Ltd. ("3D Medicines") (Note iv)	Incorporated	The PRC	RMB197,564,792	13.4%	–	13.4%	Research and development of biopharmaceutical products

Notes:

- (i) In April 2018, the Group acquired 20% of the equity interest in Nanjing Bioheng through capital injection of RMB20,000,000. The investment in Nanjing Bioheng, an innovative biopharmaceutical company focusing on disease treatment and service, enables the Group to have exposure to the development and clinical transformation of new immunotherapy for tumor through local expertise. In January 2019, the proportion of the Group's interest in Nanjing Bioheng has been diluted to 16% due to the new financing obtained by Nanjing Bioheng. The Group has a right to appoint one director to the board of Nanjing Bioheng in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group can cast significant influence on Nanjing Bioheng and consider it is an associate of the Group.
- (ii) In July 2019, the Group acquired 33% of the equity interest in BCY Pharm Co., Ltd. from a fellow subsidiary, BioSciKin Precision Medical Holding Group Co., Ltd., at a consideration of RMB33,429,000. The investment in BCY Pharm Co., Ltd., a company engaged in research and development of innovative biopharmaceutical products focusing on treatment of psoriasis, enables the Group to explore commercialization cooperation opportunities in relevant sector.

On April 30, 2020, Nanjing BioSciKin Biotechnology Development Co., Ltd., the Group's wholly owned subsidiary incorporated in the PRC, entered into an agreement with BCY Pharm Co., Ltd. and its shareholders, and acquired additional 19.14% equity interest of BCY Pharm Co., Ltd., through additional capital injection of RMB40,000,000. Upon the completion of the transaction on May 13, 2020, the Group held 52.14% equity interest in BCY Pharm Co., Ltd. and BCY Pharm Co., Ltd. became a subsidiary of the Group.

- (iii) In June 2019, the Group acquired 49% of the equity interest in Xuancheng Menovo through capital injection of RMB111,680,000. Xuancheng Menovo, being a subsidiary of Ningbo Menovo Pharmaceutical Co., Ltd., a company listed on the main board of Shanghai Stock Exchange, is a business partner of the Group in development and manufacturing of pharmaceutical ingredients.
- (iv) In December 2019, the Group signed an capital injection agreement with original shareholders of 3D Medicines and 3D Medicines to inject US\$40,000,000 capital in exchange of 17.9% of equity interest of 3D Medicines. As of June 30, 2020, the Group injected US\$30,000,000 (equivalent to RMB210,351,000) which represents an effective ownership interest of 13.4%. The remaining capital will be injected to 3D Medicines upon the completion of certain conditions as stipulated in the capital injection agreement. 3D Medicines is a company engaged in research and development of innovative biopharmaceutical products and immune-oncology therapies. The investment in 3D Medicines enhances the Group's further exploration and development in the relevant sector. The Group has a right to appoint two directors to the board of 3D Medicines in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group can cast significant influence on 3D Medicines and consider it is an associate of the Group.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Summarized financial information of the material associates, Xuancheng Menovo and 3D Medicines, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements are disclosed below:

	31 December 2019	30 June 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Gross amounts of Xuancheng Menovo's		
Current assets	69,087	57,811
Non-current assets	382,585	407,685
Current liabilities	(136,750)	(152,267)
Non-current liabilities	(120,600)	(117,572)
Equity	194,322	195,657

	31 December 2019	30 June 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	9,747	46,150
(Loss)/profit from continuing operations	(8,259)	1,335
Other comprehensive income	–	–
Total comprehensive income	(8,259)	1,335
Reconciled to the Group's interest in Xuancheng Menovo		
Gross amounts of net assets of Xuancheng Menovo	194,322	195,657
Group's effective interest	49%	49%
Group's share of net assets of Xuancheng Menovo	95,218	95,872
Goodwill	13,582	13,582
	<u>108,800</u>	<u>109,454</u>
Carrying amount of in the consolidated financial statements	<u>108,800</u>	<u>109,454</u>
Group's share of Xuancheng Menovo's		
(Loss)/profit from continuing operations	(2,880)	654
Other comprehensive income	–	–
Total comprehensive income	(2,880)	654
		30 June 2020
		<i>RMB'000</i>
Gross amounts of 3D Medicines's		
Current assets		63,231
Non-current assets		796,508
Current liabilities		(254,311)
Non-current liabilities		–
Equity		<u>605,428</u>
Revenue		102
Loss from continuing operations		(63,922)
Other comprehensive income		–
Total comprehensive income		(63,922)
Reconciled to the Group's interest in 3D Medicines		
Gross amounts of net assets of 3D Medicines		605,428
Group's effective interest		13.4%
Group's share of net assets of 3D Medicines		81,174
Goodwill		<u>128,815</u>
Carrying amount of in the consolidated financial statements		<u>209,989</u>
Group's share of 3D Medicines's		
Loss from continuing operations		(362)
Other comprehensive income		–
Total comprehensive income		(362)

The Group assesses whether this is any objective evidence that its interest in the associates are impaired at the end of each reporting period by considering the associates' business development process, any significant financial difficulty, default or bankruptcy encountered by the associates and adverse change in technological, market,

economic or legal environment. Based on the assessment above, the Group concluded that no impairment indicator was identified at the end of each reporting period and no impairment loss of interest in associates is considered necessary to be recognized in the consolidated statements of profit or loss.

Aggregate information of associates that are not individually material:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	–	18,384	50,564	10,681
	Year ended December 31,			Six months ended June 30,
	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)
Aggregate amounts of the Group's share of those associates'				
Loss from continuing operations	–	(1,616)	(5,249)	(1,518)
Other comprehensive income	–	–	–	–
Total comprehensive income	–	(1,616)	(5,249)	(1,518)

16 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture as at June 30, 2020 which is accounted for using equity method in the consolidated financial statements are set out below:

Name of Joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid in capital	Proportion of ownership interest			Principle activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Simnogen Biotech Ltd.	Incorporated	The PRC	USD4,000,000	51%	–	51%	Research and development of innovative pharmaceuticals and vaccine products

In June 2019, the Group acquired 51% of the equity interest in Simnogen Biotech Ltd. from a fellow subsidiary, BioSciKin Precision Medical Holding Group Co., Ltd., at a consideration of RMB5,200,000. Simnogen Biotech Ltd. is mainly engaged in research and development of innovative pharmaceutical and vaccine products. According to the articles of association, no single investor is in a position to control the investors' meeting nor no single director appointed by either investor is in a position to control the board of directors. Therefore, the directors of the Company consider that the Group does not have the ability to use its power over Simnogen Biotech Ltd. to affect its returns through its involvement and deem it to be a joint venture of the Group rather than a subsidiary.

Simnogen Biotech Ltd., the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

Information of the joint venture that is not individually material:

	31 December 2019	30 June 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of the joint venture in the consolidated financial statements	5,065	5,025
Amount of the Group's share of the joint venture's		
Loss from continuing operations	(135)	(40)
Other comprehensive income	–	–
Total comprehensive income	(135)	(40)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At December 31,			As at June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity securities designated at FVOCI (non-recycling)				
– Listed equity securities	44,738	31,242	43,179	205,732
– Unlisted equity securities	6,793	–	114,010	30,000
	<u>51,531</u>	<u>31,242</u>	<u>157,189</u>	<u>235,732</u>

The listed equity securities at FVOCI (non-recycling), represent investment in listed equity securities issued by listed companies incorporated in the United States. The unlisted equity securities at FVOCI (non-recycling), represent investment in unlisted equity interest in private entities incorporated in the PRC and the Cayman Islands. These investments are engaged in research and development of innovative pharmaceutical products.

The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the Relevant Periods.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 37(e).

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>The Group</i>	At December 31,			As at June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets at FVPL – non-current				
– Unlisted investments	36,219	50,249	64,115	85,741
– Unlisted units in investment funds	733,488	809,415	837,726	811,833
	769,707	859,664	901,841	897,574
Financial assets at FVPL – current				
– Structured deposits and wealth management products	506,283	261,062	543,938	–
	<u>1,275,990</u>	<u>1,120,726</u>	<u>1,445,779</u>	<u>897,574</u>

<i>The Company</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Financial assets at FVPL – non-current				
– Unlisted investments	–	–	3,975	7,080
– Unlisted units in investment funds	172,174	189,837	222,499	211,858
	<u>172,174</u>	<u>189,837</u>	<u>226,474</u>	<u>218,938</u>

The Group's non-current balances of financial assets at FVPL represent investments in private entities incorporated in the PRC, the United States, the Cayman Islands and Singapore and units in investment funds incorporated in the PRC, the United States and the Cayman Islands. The Company's non-current balances of financial assets at FVPL represent investments in a private entity incorporated in the United States and units in an investment fund incorporated in the Cayman Islands. These investments are primarily engaged or further invested in the healthcare and pharmaceutical sectors.

The Group's current balances of financial assets at FVPL mainly represent structured deposits and wealth management products issued by various financial institutions in the PRC with a floating return which will be paid together with the principal on the maturity date.

The analysis on the fair value measurement of the Group's above financial assets is disclosed in Note 37(e).

19 TRADING SECURITIES

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Listed equity securities	<u>2,858</u>	<u>2,286</u>	<u>3,058</u>	<u>2,956</u>

The analysis on the fair value measurement of the above financial assets is disclosed in Note 37(e).

20 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Raw materials	51,782	71,695	82,364	91,413
Semi-finished goods	30,160	29,886	40,070	62,017
Finished goods	<u>111,915</u>	<u>139,902</u>	<u>131,342</u>	<u>151,329</u>
	193,857	241,483	253,776	304,759
Write down of inventories	<u>(6,616)</u>	<u>(7,614)</u>	<u>(5,602)</u>	<u>(9,815)</u>
	<u>187,241</u>	<u>233,869</u>	<u>248,174</u>	<u>294,944</u>

- (b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Carrying amount of inventories sold	511,445	568,726	671,616	311,021	289,647
(Reversal of)/provision for write-down of inventories	(923)	2,567	5,745	1,811	5,913
	<u>510,522</u>	<u>571,293</u>	<u>677,361</u>	<u>312,832</u>	<u>295,560</u>

All inventories are expected to be recovered within one year.

21 TRADE AND BILLS RECEIVABLES

	At December 31,			As at
	2017 RMB'000	2018 RMB'000	2019 RMB'000	June 30, 2020 RMB'000
Trade receivables	286,232	554,059	985,117	1,284,758
Bills receivable	422,477	409,249	364,585	387,130
	<u>708,709</u>	<u>963,308</u>	<u>1,349,702</u>	<u>1,671,888</u>
Less: loss allowance	(10,734)	(11,998)	(12,786)	(20,396)
	<u>697,975</u>	<u>951,310</u>	<u>1,336,916</u>	<u>1,651,492</u>

All of the trade and bills receivables are expected to be recovered within one year.

Aging analysis

As of the end of the reporting period, the aging analysis of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	At December 31,			As at
	2017 RMB'000	2018 RMB'000	2019 RMB'000	June 30, 2020 RMB'000
Within 3 months	504,533	814,415	1,072,544	909,645
Over 3 months but within 12 months	191,542	136,663	264,272	737,286
Over 12 months	1,900	232	100	4,561
	<u>697,975</u>	<u>951,310</u>	<u>1,336,916</u>	<u>1,651,492</u>

Trade and bills receivables are due within 30 – 90 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 37(a).

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

<i>The Group</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Current				
Prepayments for raw materials and expenses	31,027	31,772	52,215	52,033
Value added tax recoverable	11,945	9,576	30,337	27,084
Other deposits and receivables	40,949	42,485	41,078	49,008
	<u>83,921</u>	<u>83,833</u>	<u>123,630</u>	<u>128,125</u>
Less: loss allowance	(2,928)	(3,278)	(4,147)	(4,199)
	<u>80,993</u>	<u>80,555</u>	<u>119,483</u>	<u>123,926</u>
Non-current				
Prepayments for property, plant and equipment	10,772	21,653	64,739	77,781
Deposits for investments	–	–	260,351	50,000
	<u>10,772</u>	<u>21,653</u>	<u>325,090</u>	<u>127,781</u>
The Company				
	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Current				
Dividends receivable	–	283,000	83,000	–
Others	–	192	4,621	5,555
	<u>–</u>	<u>283,192</u>	<u>87,621</u>	<u>5,555</u>

All of prepayments, deposits and other receivables current balances are expected to be recovered or recognized as expense within one year.

The Group's deposits for investments as at December 31, 2019 represent the amount paid by the Group in connection with the Group's proposing investments with 3D Medicines and a third party company in the PRC which is principally engaged in research and development and application of investigational new drug. During the six months ended June 30, 2020, the investment with 3D Medicines was completed. At June 30, 2020, the remaining investment transaction was yet to be completed.

23 LOANS TO RELATED PARTIES AND THIRD PARTIES

<i>The Group</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Non-trade in nature:				
Loans to related parties	504,447	676,790	–	–
Loans to third parties	22,996	1,213	–	–
	<u>527,443</u>	<u>678,003</u>	<u>–</u>	<u>–</u>

<i>The Company</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Non-trade in nature:				
Loans to related parties	–	14,290	90,951	89,120
	<u>–</u>	<u>14,290</u>	<u>90,951</u>	<u>89,120</u>

At December 31, 2017 and 2018, the loans to related parties were subject to interest rates, ranging from 4.35% to 6.00% per annum, unsecured and have no fixed repayment terms.

At December 31, 2017 and 2018, the loans to third parties were subject to interest rates, ranging from 5.10% to 6.00% per annum, and have no fixed repayment terms.

At December 31, 2018 and 2019 and June 30, 2020, the Company's loans to related parties were subject to interest rates, ranging from nil to 4.35% per annum, and have no fixed repayment terms.

24 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED DEPOSITS

(a) Cash and cash equivalents comprise:

<i>The Group</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Cash at bank	572,578	1,187,644	354,760	595,885
Cash in hand	6	3	44	31
	<u>572,584</u>	<u>1,187,647</u>	<u>354,804</u>	<u>595,916</u>

<i>The Company</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Cash at bank	10	128,258	2,385	9,661
	<u>10</u>	<u>128,258</u>	<u>2,385</u>	<u>9,661</u>

(b) Pledged deposits and restricted deposits comprise:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Pledged deposits for				
– issuance of bills payable and letters of credit	68	40,569	962	1,477
– banking facilities	194,000	200,000	290,000	903,000
	<u>194,068</u>	<u>240,569</u>	<u>290,962</u>	<u>904,477</u>

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Restricted deposits for				
– research and development projects	12,134	11,369	–	1,501
	<u>12,134</u>	<u>11,369</u>	<u>–</u>	<u>1,501</u>

The pledged deposits will be released upon the settlement of the relevant bills payable and letters of credit by the Group or the termination of relevant banking facilities. The restricted deposits will be used for funding certain research and development projects.

(c) Reconciliation of profits before taxation to cash generated from/(used in) operations

		Year ended December 31,			Six months ended	
	Note	2017	2018	2019	June 30,	2020
		RMB'000	RMB'000	RMB'000	2019	2020
					RMB'000	RMB'000
					(unaudited)	
Profit before taxation		497,284	929,044	1,081,815	550,144	224,733
Adjustments for:						
Depreciation of property, plant and equipment	6(c)	87,106	103,441	146,932	58,951	97,833
Amortization of intangible assets	6(c)	17,038	16,562	15,577	7,953	8,152
Net finance costs	6(a)	33,295	11,281	81,231	39,923	68,725
Share of losses of associates	15	–	1,616	8,129	1,518	4,353
Share of losses of a joint venture	16	–	–	135	–	40
Net (gain)/loss on disposal of property, plant and equipment	5(b)	(229)	456	3,483	(36)	3,053
Net realized and unrealized (gains)/losses on trading securities	5(b)	(649)	523	(819)	(666)	102
Net realized and unrealized losses/(gains) on financial assets at fair value through profit or loss	5(b)	166,495	(81,669)	(20,238)	(11,671)	(13,261)

	Note	Year ended December 31,			Six months ended	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	June 30, 2019 RMB'000	2020 RMB'000
Gain on disposal of a subsidiary	5(b)	–	–	–	–	(1,552)
Gain arising from business combination	38	–	–	–	–	(1,762)
Equity settled share-based payment expenses	32	15,150	5,695	14,151	2,498	17,725
Impairment loss on trade and other receivables	6(c)	4,441	1,614	1,657	4,302	7,662
(Reversal of)/provision for write-down of inventories	6(c)	(923)	2,567	5,745	1,811	5,913
Other revenue from asset-related government grants	5(a)	(3,187)	(3,137)	(10,255)	(2,026)	(16,473)
Foreign exchange loss/(gain) on bank loans		1,783	(2,056)	997	1,021	8,807
Operating profit before changes in working capital		817,604	985,937	1,328,540	653,722	414,050
(Increase)/decrease in pledged deposits for issuance of bills payable and letters of credit and restricted deposits		(2,898)	(39,736)	50,976	10,982	(2,016)
Decrease/(increase) in inventories		20,219	(49,195)	(20,050)	6,435	(52,683)
Increase in trade and bills receivables		(26,404)	(254,599)	(386,394)	(8,120)	(322,186)
Decrease/(Increase) in prepayments, deposits and other receivables		12,724	88	(39,797)	(48,667)	(3,399)
Increase/(decrease) in trade and bills payables		45,299	92,457	(52,706)	100,361	(34,849)
Increase/(decrease) in other payables and accruals		209,069	207,143	174,219	138,595	(86,643)
(Decrease)/increase in income-related deferred income		(13,063)	(11,595)	(17,128)	(8,765)	3,343
Cash generated from/(used in) operations		1,062,550	930,500	1,037,660	844,543	(84,383)

(d) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	Bank loans	Loans from related parties	Lease liabilities	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 25)</i>	<i>(Note 26)</i>	<i>(Note 27)</i>	
At January 1, 2017	1,217,035	101,426	9,403	1,327,864
Changes from financing cash flows:				
Proceeds from bank loans	774,459	–	–	774,459
Repayment of bank loans	(843,110)	–	–	(843,110)
New loans from related parties	–	34,057	–	34,057
Repayment of loans from related parties	–	(640)	–	(640)
Capital element of lease rentals paid	–	–	(8,046)	(8,046)
Interest element of lease rentals paid	–	–	(1,258)	(1,258)
Interest paid	(50,281)	–	–	(50,281)
Total changes from financing cash flows	(118,932)	33,417	(9,304)	(94,819)
Exchange adjustments	1,783	–	–	1,783
Other changes:				
Increase in lease liabilities from entering into new leases during the year	–	–	24,338	24,338
Interest expenses <i>(Note 6(a))</i>	53,171	4,012	1,258	58,441
Total other changes	53,171	4,012	25,596	82,779
At December 31, 2017 and January 1, 2018	1,153,057	138,855	25,695	1,317,607
Changes from financing cash flows:				
Proceeds from bank loans	1,646,831	–	–	1,646,831
Repayment of bank loans	(743,524)	–	–	(743,524)
New loans from related parties	–	296,895	–	296,895
Repayment of loans from related parties	–	(238,643)	–	(238,643)
Capital element of lease rentals paid	–	–	(27,944)	(27,944)
Interest element of lease rentals paid	–	–	(1,607)	(1,607)
Interest paid	(37,513)	–	–	(37,513)
Total changes from financing cash flows	865,794	58,252	(29,551)	894,495
Exchange adjustments	(2,056)	–	–	(2,056)

	Bank loans <i>RMB'000</i> <i>(Note 25)</i>	Loans from related parties <i>RMB'000</i> <i>(Note 26)</i>	Lease liabilities <i>RMB'000</i> <i>(Note 27)</i>	Total <i>RMB'000</i>
Other changes:				
Increase in lease liabilities from entering into new leases during the year	–	–	58,917	58,917
Interest expenses <i>(Note 6(a))</i>	39,182	6,745	1,607	47,534
Capitalized borrowing costs <i>(Note 6(a))</i>	1,363	–	–	1,363
Total other changes	40,545	6,745	60,524	107,814
At December 31, 2018 and January 1, 2019	2,057,340	203,852	56,668	2,317,860
At January 1, 2019	2,057,340	203,852	56,668	2,317,860
Changes from financing cash flows:				
Proceeds from bank loans	2,605,640	–	–	2,605,640
Repayment of bank loans	(1,883,549)	–	–	(1,883,549)
New loans from related parties	–	11,796	–	11,796
Repayment of loans from related parties	–	(141,793)	–	(141,793)
Capital element of lease rentals paid	–	–	(34,163)	(34,163)
Interest element of lease rentals paid	–	–	(7,122)	(7,122)
Interest paid	(105,940)	(35,251)	–	(141,191)
Total changes from financing cash flows	616,151	(165,248)	(41,285)	409,618
Exchange adjustments	997	–	–	997
Other changes:				
Increase in lease liabilities from entering into new leases during the year	–	–	135,302	135,302
Interest expenses <i>(Note 6(a))</i>	102,227	6,606	7,122	115,955
Net settlement of amount due from and due to related parties	–	(45,210)	–	(45,210)
Capitalized borrowing costs <i>(Note 6(a))</i>	6,434	–	–	6,434
Total other changes	108,661	(38,604)	142,424	212,481
At December 31, 2019 and January 1, 2020	2,783,149	–	157,807	2,940,956
Changes from financing cash flows:				
Proceeds from bank loans	1,544,783	–	–	1,544,783
Repayment of bank loans	(858,022)	–	–	(858,022)
New loans from related parties	–	35,506	–	35,506
Repayment of loans from related parties	–	(35,506)	–	(35,506)
Capital element of lease rentals paid	–	–	(17,915)	(17,915)
Interest element of lease rentals paid	–	–	(5,124)	(5,124)
Interest paid	(77,229)	(298)	–	(77,527)

(e) Total cash flow for leases

Amounts included in the cash flow statement for leases comprise the following:

	Year ended December 31,			Six months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within operating cash flows	3,034	6,260	7,558	4,501	5,312
Within investing cash flows	51,861	–	22,890	–	116
Within financing cash flows	9,304	29,551	41,285	21,586	23,039
	<u>64,199</u>	<u>35,811</u>	<u>71,733</u>	<u>26,087</u>	<u>28,467</u>

These amounts relate to the following:

	Year ended December 31,			Six months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease rentals paid	12,338	35,811	48,843	26,087	28,351
Increase in leasehold land	51,861	–	22,890	–	116
	<u>64,199</u>	<u>35,811</u>	<u>71,733</u>	<u>26,087</u>	<u>28,467</u>

25 BANK LOANS

The maturity profile for the interest-bearing bank loans of the Group and the Company at the end of each reporting period is as follows:

<i>The Group</i>	At December 31,			As at
	2017	2018	2019	June 30, 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans	635,580	1,745,616	1,508,765	2,035,282
Current portion of long-term bank loans	<u>220,000</u>	<u>233,705</u>	<u>135,213</u>	<u>243,915</u>
Within 1 year or on demand	855,580	1,979,321	1,643,978	2,279,197
After 1 year but within 2 years	226,079	14,093	222,608	1,026,573
After 2 years but within 5 years	38,039	40,735	903,902	161,689
More than 5 years	<u>33,359</u>	<u>23,191</u>	<u>12,661</u>	<u>12,966</u>
	<u>297,477</u>	<u>78,019</u>	<u>1,139,171</u>	<u>1,201,228</u>
	<u>1,153,057</u>	<u>2,057,340</u>	<u>2,783,149</u>	<u>3,480,425</u>

<i>The Company</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Short-term bank loans	175,580	173,524	174,522	176,495

At the end of each reporting period, the bank loans were secured as follows:

<i>The Group</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Bank loans				
– Secured	382,395	373,371	1,523,149	1,521,883
– Unsecured	770,662	1,683,969	1,260,000	1,958,542
	1,153,057	2,057,340	2,783,149	3,480,425

<i>The Company</i>	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Bank loans				
– Unsecured	175,580	173,524	174,522	176,495

Notes:

- (i) The Group's bank loans were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Leasehold land (<i>Note 12</i>)	15,263	14,910	53,991	53,293
Plants and buildings (<i>Note 12</i>)	185,825	176,480	224,935	220,923
Financial assets at fair value through profit or loss (<i>Note 18</i>)	–	–	400,000	–
Pledged deposits (<i>Note 24(b)</i>)	194,000	200,000	290,000	903,000
	395,088	391,390	968,926	1,177,216

- (ii) Certain bank facilities granted to the Group were guaranteed by Mr. Ren Jinsheng, the ultimate controlling shareholder of the Group, and his spouse Ms. Wang Xi, and Nanjing BioSciKin Technology Development Co., Ltd. and pledged with the equity interest of Simcare Jiangsu Pharmaceutical Co., Ltd. held by Nanjing Huasheng Industrial Co., Ltd., at December 31, 2017, 2018 and 2019 and June 30, 2020. All of these companies are controlled by the ultimate controlling shareholder of the Group.

	At December 31,			As at
	2017	2018	2019	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Guarantees and pledges to banks for granting banking facilities	100,500	100,500	783,500	672,500
	<u>100,500</u>	<u>100,500</u>	<u>783,500</u>	<u>672,500</u>
26 LOANS FROM RELATED PARTIES				
				As at
<i>The Group</i>				June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-trade in nature:				
Loans from related parties	138,855	203,852	–	–
	<u>138,855</u>	<u>203,852</u>	<u>–</u>	<u>–</u>
				As at
<i>The Company</i>				June 30,
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-trade in nature:				
Loans from related parties	1,860	38,604	203,904	139,976
	<u>1,860</u>	<u>38,604</u>	<u>203,904</u>	<u>139,976</u>

At December 31, 2017 and 2018, the Group's loans from related parties were subject to an interest rate of 4.35% per annum, were unsecured and have no fixed repayment terms.

At December 31, 2017, 2018 and 2019 and June 30, 2020, the Company's loans from related parties were subject interest rates, ranging from nil to 4.35% per annum, unsecured and have no fixed repayment terms.

27 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each reporting period:

	2017		At December 31, 2018		2019		As at June 30 2020	
	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>
Within								
1 year	19,955	20,490	13,678	15,816	26,206	32,505	37,975	47,815
After 1 year but within 2 years	5,546	5,655	7,646	9,350	26,696	31,801	38,580	46,782
After 2 years but within 5 years	117	134	23,829	26,864	86,135	94,068	114,176	128,735
After 5 years	77	81	11,515	11,848	18,770	19,369	66,774	72,222
	<u>5,740</u>	<u>5,870</u>	<u>42,990</u>	<u>48,062</u>	<u>131,601</u>	<u>145,238</u>	<u>219,530</u>	<u>247,739</u>
	<u>25,695</u>	<u>26,360</u>	<u>56,668</u>	<u>63,878</u>	<u>157,807</u>	<u>177,743</u>	<u>257,505</u>	<u>295,554</u>
Less: total future interest expenses		<u>(665)</u>		<u>(7,210)</u>		<u>(19,936)</u>		<u>(38,049)</u>
Present value of lease liabilities		<u>25,695</u>		<u>56,668</u>		<u>157,807</u>		<u>257,505</u>

28 TRADE AND BILLS PAYABLES

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade payables	93,815	79,818	93,165	66,172
Bills payable	121,285	227,739	161,686	154,287
	<u>215,100</u>	<u>307,557</u>	<u>254,851</u>	<u>220,459</u>

As of the end of the reporting period, the aging analysis of trade and bills payables, based on the invoice date, is as follows:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within 3 months	136,096	173,228	172,961	89,650
3 to 12 months	77,334	132,350	79,838	128,910
Over 12 months	1,670	1,979	2,052	1,899
	<u>215,100</u>	<u>307,557</u>	<u>254,851</u>	<u>220,459</u>

All of the trade and bills payables are expected to be settled within one year or repayable on demand.

30 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
At the beginning of the year/period	46,341	37,231	81,067	85,219
Provision for PRC Corporate Income Tax for the year/period	112,041	97,911	197,100	29,537
Effect of PRC withholding tax on dividends	–	100,000	71,300	–
Effect of PRC Corporate Income Tax on disposal of financial assets at fair value through other comprehensive income	–	–	–	2,057
Under/(over) provision in respect of prior years	2,323	608	609	(4,138)
Tax paid	(123,474)	(154,683)	(264,857)	(143,275)
At the end of the year/period	<u>37,231</u>	<u>81,067</u>	<u>85,219</u>	<u>(30,600)</u>
Represented by:				
Taxation recoverable	(2,442)	(18,958)	(306)	(30,737)
Taxation payable	39,673	100,025	85,525	137
	<u>37,231</u>	<u>81,067</u>	<u>85,219</u>	<u>(30,600)</u>

(b) Deferred tax assets and liabilities recognized represents:

- (i) The components of deferred tax assets recognized in the consolidated statements of financial position and the movements during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 are as follows:

	Provision for asset impairment	Unrealized profits on inventories	Deductible tax losses	Depreciation of property, plant and equipment	Fair value change of financial assets	Government grants	Accrued expenses	Other temporary differences	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017	3,967	54,203	20,748	4,718	2,841	11,892	62,505	3,607	164,481
Recognized in profit or loss	541	(9,010)	(448)	(432)	7,388	(2,676)	27,398	6,375	29,136
Recognized in other comprehensive income	–	–	–	–	6,186	–	–	–	6,186
At December 31, 2017 and January 1, 2018	4,508	45,193	20,300	4,286	16,415	9,216	89,903	9,982	199,803
Recognized in profit or loss	103	(7,599)	(4,861)	(833)	(1,478)	425	16,321	(5,007)	(2,929)
Recognized in other comprehensive income	–	–	–	–	1,453	–	–	–	1,453

	Provision for asset impairment <i>RMB'000</i>	Unrealized profits on inventories <i>RMB'000</i>	Deductible tax losses <i>RMB'000</i>	Depreciation of property, plant and equipment <i>RMB'000</i>	Fair value change of financial assets <i>RMB'000</i>	Government grants <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Other temporary differences <i>RMB'000</i>	Total <i>RMB'000</i>
At December 31, 2018 and January 1, 2019	4,611	37,594	15,439	3,453	16,390	9,641	106,224	4,975	198,327
Recognized in profit or loss	(234)	72,829	(3,429)	(1,153)	9,165	59,733	(3,862)	(2,230)	130,819
Recognized in other comprehensive income	-	-	-	-	1,278	-	-	-	1,278
At December 31, 2019 and January 1, 2020	4,377	110,423	12,010	2,300	26,833	69,374	102,362	2,745	330,424
Recognized in profit or loss	3,831	(37,755)	65,739	(295)	(16,181)	34	(148)	(8,325)	6,900
Recognized in other comprehensive income	-	-	-	-	(6,715)	-	-	-	(6,715)
At June 30, 2020	8,208	72,668	77,749	2,005	3,937	69,408	102,214	(5,580)	330,609

- (ii) The components of deferred tax liabilities recognized in the consolidated statements of financial position and the movements during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 are as follows:

	Fair value adjustment arising from business combination <i>RMB'000</i>	Depreciation of property, plant and equipment <i>RMB'000</i>	Fair value change of financial assets <i>RMB'000</i>	Undistributed profits <i>RMB'000</i>	Other temporary differences <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2017	18,984	2,362	679	152,678	1,868	176,571
Recognized in profit or loss	(6,127)	1,177	4,398	62,464	(268)	61,644
Recognized in other comprehensive income	-	-	(174)	-	-	(174)
Exchange adjustment	-	-	(146)	-	-	(146)
At December 31, 2017 and January 1, 2018	12,857	3,539	4,757	215,142	1,600	237,895
Recognized in profit or loss	(2,032)	19,762	9,294	66,866	19	93,909
Effect of PRC withholding tax on dividends	-	-	-	(100,000)	-	(100,000)
Exchange adjustment	-	-	462	-	-	462

	Fair value adjustment arising from business combination <i>RMB'000</i>	Depreciation of property, plant and equipment <i>RMB'000</i>	Fair value change of financial assets <i>RMB'000</i>	Undistributed profits <i>RMB'000</i>	Other temporary differences <i>RMB'000</i>	Total <i>RMB'000</i>
At December 31, 2018 and January 1, 2019	10,825	23,301	14,513	182,008	1,619	232,266
Recognized in profit or loss	(2,014)	36,608	15,525	(38,620)	(198)	11,301
Effect of PRC withholding tax on dividends	–	–	–	(71,300)	–	(71,300)
Exchange adjustment	–	–	63	–	–	63
At December 31, 2019 and January 1, 2020	8,811	59,909	30,101	72,088	1,421	172,330
Business combination (Note 38)	15,175	–	–	–	–	15,175
Recognized in profit or loss	(1,928)	12,217	6,927	4,183	–	21,399
Recognized in other comprehensive income	–	–	14,555	–	–	14,555
Exchange adjustment	–	–	1,032	–	–	1,032
At June 30, 2020	<u>22,058</u>	<u>72,126</u>	<u>52,615</u>	<u>76,271</u>	<u>1,421</u>	<u>224,491</u>

Under the arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the “beneficial owner” and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution). The Group met the beneficial owner requirements in 2019 and was entitled to a preferential rate of 5% since 2019. As at December 31, 2017, 2018 and 2019 and June 30, 2020, the deferred tax liabilities arising from undistributed profits was recognized using the tax rate of 10%, 10%, 5% and 5%, respectively.

(iii) Reconciliation to the consolidated statements of financial position:

	At December 31,			As at
	2017	2018	2019	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Net deferred tax assets recognized in the consolidated statements of financial position	194,663	174,483	274,698	252,835
Net deferred tax liabilities recognized in the consolidated statements of financial position	(232,755)	(208,422)	(116,604)	(146,717)
	<u>(38,092)</u>	<u>(33,939)</u>	<u>158,094</u>	<u>106,118</u>

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(r), the Group did not recognize deferred tax assets of RMB19,388,000, RMB21,960,000, RMB25,978,000 and RMB52,423,000, respectively, in respect of cumulative tax losses RMB77,551,000, RMB88,430,000, RMB107,236,000 and RMB214,743,000 as at December 31, 2017, 2018 and 2019 and June 30, 2020 respectively. The Group did not recognize deferred tax assets of RMB32,351,000, RMB47,035,000, RMB49,849,000 and RMB47,674,000, respectively, in respect of cumulative time differences RMB153,981,000, RMB163,931,000, RMB177,557,000 and RMB171,324,000 as at December 31, 2017, 2018 and 2019 and June 30, 2020 respectively. It was not probable that future taxable profits against which the losses and time differences can be utilized will be available in the relevant tax jurisdiction and entities.

(d) Deferred tax liabilities not recognized

At December 31, 2017, 2018 and 2019 and June 30 2020, the Group did not recognize deferred tax liabilities of RMB nil, RMB nil and RMB35,394,000 and RMB45,153,000, respectively, in respect of distributable profits of the Group's PRC subsidiaries amounted to RMB nil, RMB nil and RMB707,874,000 and RMB903,069,000, respectively, as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that certain portion of the undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future in accordance with the Group's dividend policy.

The directors of the Company consider the Group's PRC subsidiaries will not distribute more than 30% of the current year's consolidated net profit since 2019 and the undistributed profits will be used for future reinvestment in the PRC.

31 DEFERRED INCOME

As at December 31, 2017, 2018 and 2019 and June 30, 2020, deferred income represented unamortized conditional government grants amounting to RMB344,102,000, RMB331,370,000 and RMB470,525,000 and RMB463,216,000, for plant relocation and construction and encouragement of technology research and development.

Deferred income is recognized as income upon the satisfaction of acceptance standards, completion of the relocation or amortized over the useful life of the related property, plant and equipment upon the completion of the construction.

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Pre-IPO Share Incentive Scheme

On July 31, 2014, the board of directors of the Company's immediate parent company, SPHL, adopted the Restricted Share Incentive Scheme (the "Pre-IPO Share Incentive Scheme") and would grant up to 5,583,613 restricted shares of SPHL on March 31, 2015, April 30, 2016 and April 30, 2018 in tranches. The restricted shares were granted to the directors and employees of the Company and its subsidiaries (the "Participants") at a price of RMB20 or at nil price per each restricted share. Each restricted share gives the holder a right to receive one ordinary share of SPHL pursuant to the conditions provided for under the Pre-IPO Share Incentive Scheme at the end of the respective vesting period. If the performance conditions or service conditions are not fulfilled and the corresponding tranche of restricted shares granted cannot be vested, the unvested restricted shares will be repurchased and the grant price paid by the Participants will be repaid to the Participants.

On December 10, 2015, in connection with the Pre-IPO Share Incentive Scheme, Excel Management Company Limited ("Excel Management"), as the trustee, executed a declaration of trust, pursuant to which it was established to hold shares of SPHL, for the benefit of the Participants of the Pre-IPO Share Incentive Scheme. On July 8, 2016, SPHL allotted and issued 5,583,613 shares to Excel Management, through Artking Global Limited, a company controlled by the ultimate controlling shareholder of the Group. Such 5,583,613 shares of SPHL held by Excel Management was for the purpose of the Pre-IPO Share Incentive Scheme.

As part of the Reorganization, the details of which are described in the section headed "History, Reorganization and Corporate Structure" in the Prospectus, on June 21, 2019, the Company allotted and issued 54,719,407 ordinary shares to Excel Management to enable that Excel Management's shareholding in the Company, whether directly or indirectly, will not be diluted as a result of allotment of ordinary shares to other equity shareholders of the Company.

During 2015 and 2016, 507,500 restricted shares, which were forfeited subsequent to the respective grant dates due to not achieving relevant service conditions, were repurchased at the grant price by SPHL through Excel Management.

On October 1, 2019, the board of directors of SPHL, approved a new grant of 1,023,000 restricted shares, of which 507,500 restricted shares were previously repurchased by SPHL through Excel Management and the remaining 515,500 restricted shares were held by Mr. Ren Jinsheng through Excel Management. The restricted shares were granted to the Participants at a price of RMB50 per each restricted share or at nil price. Each restricted share gives the holder a right to receive the underlying ordinary share held by Excel Management pursuant to the conditions provided for under the Pre-IPO Share Incentive Scheme at the end of the respective vesting period.

(a) The terms and conditions of the grants are as follows:

	Number of Restricted shares	Vesting period	Price per restricted share RMB
Restricted shares granted to directors and employees:			
– on March 31, 2015	1,605,613	March 31, 2015 – March 31, 2017	Nil
– on March 31, 2015	1,662,500	March 31, 2015 – March 31, 2017	20
– on March 31, 2015	30,000	March 31, 2015 – April 30, 2018	Nil
– on March 31, 2015	1,264,500	March 31, 2015 – April 30, 2018	20
– on March 31, 2015	61,500	March 31, 2015 – November 30, 2018	20
– on March 31, 2015	30,000	March 31, 2015 – April 30, 2020	Nil
– on March 31, 2015	707,500	March 31, 2015 – April 30, 2020	20
– on April 30, 2016	66,500	April 30, 2016 – April 30, 2018	20
– on April 30, 2018	155,500	April 30, 2018 – April 30, 2020	20
– on October 1, 2019	180,000	October 1, 2019 – December 31, 2021	Nil
– on October 1, 2019	843,000	October 1, 2019 – December 31, 2021	50

Vesting of the restricted shares is conditional upon the operating performance of the Group and the service conditions of the Participants. There were no market conditions associated with the restricted shares.

(b) *A summary of restricted shares outstanding for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020:*

	2017		At December 31, 2018		2019		As at June 30, 2020	
	Weighted average grant- date fair value RMB	Number of restricted shares '000	Weighted average grant- date fair value RMB	Number of restricted shares '000	Weighted average grant- date fair value RMB	Number of restricted shares '000	Weighted average grant- date fair value RMB	Number of restricted shares '000
Balance at the beginning of the year/period	18.57	4,921	12.51	1,944	17.42	893	51.42	1,916
Grant during the year/period	-	-	40.16	156	81.10	1,023	-	-
Vested during the year/period	22.53	(2,977)	12.43	(1,207)	-	-	17.42	(893)
Forfeited during the year/period	-	-	-	-	-	-	101.77	(83)
Balance at the end of the year/period	12.51	<u>1,944</u>	17.42	<u>893</u>	51.42	<u>1,916</u>	79.27	<u>940</u>

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the average remaining vesting period of the restricted shares granted under the Pre-IPO Share Incentive Scheme was 1.11 years, 1.33 years, 1.22 years and 1.50 years.

(c) *Fair value of restricted shares granted*

The grant-date fair values of each restricted shares granted are set out below:

Grant date	Grant price of each restricted share		
	RMB50	RMB20	RMB nil
March 31, 2015	Not applicable	RMB11.81	RMB31.81
April 30, 2016	Not applicable	RMB16.38	Not applicable
April 30, 2018	Not applicable	RMB40.16	Not applicable
October 1, 2019	RMB72.30	Not applicable	RMB122.30

The grant-date fair value of the restricted shares granted is measured at the difference between the fair value of the underlying ordinary shares and the grant price at the respective grant dates.

Share-based payment expense of RMB15,150,000, RMB5,695,000, RMB14,151,000 and RMB2,498,000, RMB17,725,000 are recognized as staff costs in the consolidated statements of profit or loss for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively.

As at December 31, 2017, 2018 and 2019 and June 30, 2020, RMB54,270,000, RMB68,119,000 and RMB112,029,000 and RMB112,029,000 were received from the Participants on behalf of SPHL and recorded under "Other payables and accruals" in the consolidated statements of financial position.

33 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of each reporting period are set out below:

<i>The Company</i>				Reserves	Retained	
	<i>Note</i>	Share capital	Other reserve	Exchange reserve	profits	Total
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2017		–	–	(2)	(97)	(99)
Changes in equity for 2017:						
Loss and total comprehensive income for the year		–	–	102	(6,760)	(6,658)
Reorganization under common control	33(c)	34	2,085,626	–	–	2,085,660
Balance at December 31, 2017 and January 1, 2018		34	2,085,626	100	(6,857)	2,078,903
Changes in equity for 2018:						
Profit and total comprehensive income for the year		–	–	(4,389)	914,173	909,784
Appropriation of dividends	33(b)	–	–	–	(900,000)	(900,000)
Balance at December 31, 2018 and January 1, 2019		34	2,085,626	(4,289)	7,316	2,088,687
Changes in equity for 2019:						
Profit and total comprehensive income for the year		–	–	1,568	662,796	664,364
Ordinary shares issued	33(c)	176	–	–	–	176
Appropriation of dividends	33(b)	–	–	–	(635,070)	(635,070)
Balance at December 31, 2019 and January 1, 2020		210	2,085,626	(2,721)	35,042	2,118,157
Changes in equity for the six months ended June 30, 2020:						
Loss and total comprehensive income for the period		–	–	283	(14,471)	(14,188)
Balance at June 30, 2020		210	2,085,626	(2,438)	20,571	2,103,969
 <i>The Company</i>						
	<i>Note</i>	Share capital	Other reserve	Reserves	Retained	Total
		<i>RMB'000</i>	<i>RMB'000</i>	Exchange reserve	profits	Total
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)						
At January 1, 2019		34	2,085,626	(4,289)	7,316	2,088,687
Changes in equity for the six months ended June 30, 2019:						
Profit and total comprehensive income for the period		–	–	1,409	635,315	636,724
Ordinary shares issued	33(c)	176	–	–	–	176
Appropriation of dividends	33(b)	–	–	–	(635,070)	(635,070)
Balance at June 30, 2019		210	2,085,626	(2,880)	7,561	2,090,517

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial years, declared and approved during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020 is as follow:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Dividends in respect of previous financial years declared and approved	–	900,000	635,070	635,070	–

On December 21, 2018, the directors of the Company approved a dividend of USD131,134,164.80 (RMB900,000,000 equivalent), of which RMB549,056,000 and RMB350,944,000 was paid in 2018 and 2019, respectively. On April 24, 2019, the directors of the Company approved a dividend of USD83,389,986.44 (RMB561,110,000 equivalent) and it was paid in 2019. On June 18, 2019, the directors of the Company approved a dividend of RMB73,960,786.10 and it was settled in 2019.

(c) Share capital

	Note	Number of Shares	HKD
Ordinary shares, issued and fully paid:			
At January 1, 2017		1	1
Reorganization under common control	(i)	39,999	39,999
At December 31, 2017 and 2018		40,000	40,000
Ordinary shares issued	(ii)	2,345,077,618	194,512
At December 31, 2019 and June 30, 2020		2,345,117,618	234,512

Notes:

- (i) During the year ended December 31, 2017, the Company issued 19,999 and 20,000 ordinary shares to acquire the equity interest in Simcere Pharmaceutical and Hainan Simcere, respectively. The share capital of the Company increased from HKD1 to HKD40,000 (RMB34,000 equivalent).
- (ii) Pursuant to a written resolution of the board of directors of the Company passed on June 21, 2019, the share capital of the Company increased from HKD40,000 (RMB34,000 equivalent) to HKD234,512 (RMB210,000 equivalent) by the creation of additional 2,345,077,618 ordinary shares at nominal value.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves**(i) Other reserve**

Other reserve primarily represented: (i) the paid-in capital of Simcere Pharmaceutical and Hainan Simcere prior to the transactions in June and August 2017 respectively, during the course of the Reorganization under common control; (ii) the difference between the carrying value of the net assets acquired and the consideration paid for the acquisition of subsidiaries and non-controlling interests prior to the Track Record Period and during the course of the Reorganization under common control; (iii) the accumulated share based compensation for the unexercised share options, which were cancelled upon the privatization of the former holding company of the Group's substantial operating business, Simcere Investments Group (formerly known as Simcere Pharmaceutical Group); and (iv) the portion of the grant date fair value of restricted shares granted by SPHL to the directors of the Company and employees of the Group that has been recognized in accordance with the accounting policy adopted for share-based payments in Note 2(q)(ii).

(ii) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(u).

(iv) Fair value reserves (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see Note 2(f)).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintaining a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net gearing ratio. For this purpose, the Group defines net debt as total current and non-current bank loans, loans from related parties and lease liabilities less cash and cash equivalents and pledged deposits. The Group defines capital as including all components of equity.

The Group's adjusted net debt to capital ratio as at December 31, 2017, 2018 and 2019 and June 30, 2020 are as follows:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Current liabilities:				
Bank loans	855,580	1,979,321	1,643,978	2,279,197
Loans from related parties	138,855	203,852	–	–
Lease liabilities	19,955	13,678	26,206	37,975
	<u>1,014,390</u>	<u>2,196,851</u>	<u>1,670,184</u>	<u>2,317,172</u>
Non-current liabilities:				
Bank loans	297,477	78,019	1,139,171	1,201,228
Lease liabilities	5,740	42,990	131,601	219,530
	<u>303,217</u>	<u>121,009</u>	<u>1,270,772</u>	<u>1,420,758</u>
Total borrowings	1,317,607	2,317,860	2,940,956	3,737,930
Less: Cash and cash equivalents	(572,584)	(1,187,647)	(354,804)	(595,916)
Pledged deposits	(194,068)	(240,569)	(290,962)	(904,477)
	<u>550,955</u>	<u>889,644</u>	<u>2,295,190</u>	<u>2,237,537</u>
Adjusted net debt	<u>550,955</u>	<u>889,644</u>	<u>2,295,190</u>	<u>2,237,537</u>
Total equity	<u>1,781,153</u>	<u>1,565,134</u>	<u>1,480,464</u>	<u>1,858,816</u>
Adjusted net debt to capital ratio	31%	57%	155%	120%

34 CAPITAL COMMITMENTS

Capital commitments outstanding at the respective year end not provided for in the Historical Financial Information are as follows:

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Contracted for	<u>130,143</u>	<u>239,308</u>	<u>285,066</u>	<u>150,509</u>
Represented by:				
Construction of plant and buildings	89,031	160,436	219,672	110,978
Acquisition of machinery and equipment	41,112	78,872	65,394	39,531
	<u>130,143</u>	<u>239,308</u>	<u>285,066</u>	<u>150,509</u>

35 CONTINGENT LIABILITIES

On September 11, 2020, the Group received an investigation notice from State Administration for Market Regulation of the PRC (the "SAMR") in respect of the alleged claim of abuse of a dominant market position in connection with an exclusive supply arrangement of raw materials with an overseas third party supplier. As of the date of this report, the SAMR is in the process of obtaining and reviewing the documents and has not yet reached any decisions. The Group is of the opinion that the likelihood that the SAMR imposes any penalty on the Group is low. Therefore, no provision has been made in respect of this pending investigation.

Further details related to this matter are set out in the section headed "Business" included in the Prospectus.

36 MATERIAL RELATED PARTY TRANSACTIONS**(a) Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Short-term employee benefits	4,583	5,872	18,637	5,299	14,795
Contributions to defined contribution retirement plans	156	213	257	121	91
Equity settled share-based payment expenses	6,913	355	4,214	116	8,146
	<u>11,652</u>	<u>6,440</u>	<u>23,108</u>	<u>5,536</u>	<u>23,032</u>

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Names and relationships of the related parties that had other material transactions with the Group during the Track Record Period:

Name of related party	Relationship
Mr. Ren Jinsheng	Ultimate controlling shareholder of the Group
Ms. Wang Xi	The spouse of the ultimate controlling shareholder of the Group
Simcere Pharmaceutical Holding Limited	Immediate parent of the Group
Xuancheng Menovo Pharmaceutical Co., Ltd.	Associate of the Group
BCY Pharm Co., Ltd.	Associate of the Group
Jiangsu Simcare Pharmaceutical Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Simcare Jiangsu Pharmaceutical Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Beijing Sanroad Biological Products Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Fuantang Pharmaceutical Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Jiangsu Yoai Technology Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Beijing Xiangxiang Wuxian Technology Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group

Name of related party	Relationship
BioSciKin Precision Medical Holding Group Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Medway Culture Media Co. Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Asset Management Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Simcere Medical Diagnostics Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Nanjing BioSciKin Pharmaceutical Industrial Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Hainan Simcere BioSciKin Technology Development Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Shanghai BioSciKin Investment Management Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Technology Development Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Pharmaceutical Industrial Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
State Good Group Limited	Controlled by the ultimate controlling shareholder of the Group
Simcere Investments Group	Controlled by the ultimate controlling shareholder of the Group
Simcere Industrial Co., Limited	Controlled by the ultimate controlling shareholder of the Group
Nanjing Huasheng Industrial Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Shanghai Youxu Medical Equipment Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group

(c) **Guarantees issued by related parties**

	At December 31,			As at
	2017	2018	2019	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Guarantees and pledges to banks for granting banking facilities	100,500	100,500	783,500	672,500

At December 31, 2017, 2018 and 2019 and June 30, 2020, certain bank facilities granted to the Group in Note 25 were guaranteed by Mr. Ren Jinsheng, the ultimate controlling shareholder of the Group, and his spouse, Ms. Wang Xi, and Nanjing BioSciKin Technology Development Co., Ltd., and pledged with the equity interest of Simcare Jiangsu Pharmaceutical Co., Ltd. held by Nanjing Huasheng Industrial Co., Ltd.. All of these companies are controlled by the ultimate controlling shareholder of the Group.

(d) Other significant related party transactions

During the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, the Group had following transactions with related parties:

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Purchase of goods					
Jiangsu Simcare Pharmaceutical Co., Ltd.	1,449	6,892	7,292	4,031	8,070
Simcare Jiangsu Pharmaceutical Co., Ltd.	104	119	665	179	35
Beijing Sanroad Biological Products Co., Ltd.	2,460	770	–	–	–
Nanjing Fuantang Pharmaceutical Co., Ltd.	92	62	–	–	–
Jiangsu Yoai Technology Co., Ltd.	–	352	367	367	–
Beijing Xiangxiang Wuxian Technology Co., Ltd.	98	–	9	5	–
Xuancheng Menovo Pharmaceutical Co., Ltd.	–	–	753	–	570
	<u>4,203</u>	<u>8,195</u>	<u>9,086</u>	<u>4,582</u>	<u>8,675</u>
Purchase of services					
BioSciKin Precision Medical Holding Group Co., Ltd.	59	100	9	9	–
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd	–	–	–	–	64
Nanjing Medway Culture Media Co. Ltd.	100	–	1,075	–	75
Nanjing BioSciKin Asset Management Co., Ltd.	1	1	1	–	–
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	–	480	–	60
	<u>160</u>	<u>101</u>	<u>1,565</u>	<u>9</u>	<u>199</u>
Sales of goods					
Jiangsu Simcare Pharmaceutical Co., Ltd.	13,847	8,311	9,099	5,199	7,989
Simcare Jiangsu Pharmaceutical Co., Ltd.	–	–	1,549	1,291	1,154
	<u>13,847</u>	<u>8,311</u>	<u>10,648</u>	<u>6,490</u>	<u>9,143</u>

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Rendering of services					
BioSciKin Precision Medical Holding Group Co., Ltd.	–	5	87	39	47
Beijing Sanroad Biological Products Co., Ltd.	–	26,425	42,618	20,276	19,374
Jiangsu Sincere Medical Diagnostics Co., Ltd.	–	15,835	488	184	203
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	–	–	–	–	105
	–	42,265	43,193	20,449	19,729
Disposal of equity interest in other investment					
Mr. Ren Jinsheng	500	–	–	–	–
Acquisition of equity interest in subsidiaries under common control, an associate, a joint venture and other investments					
Nanjing BioSciKin Pharmaceutical Industrial Co., Ltd.	–	50,000	–	–	–
Sincere Pharmaceutical Holding Limited	93,000	–	–	–	–
BioSciKin Precision Medical Holding Group Co., Ltd.	3,176	–	649,412	649,412	–
	96,176	50,000	649,412	649,412	–

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)	2020 RMB'000
Receiving rental, property management and other related services					
Nanjing BioSciKin Technology Development Co., Ltd.	3,923	3,923	2,942	1,961	–
BioSciKin Precision Medical Holding Group Co., Ltd.	15,005	30,068	52,096	17,143	23,525
Nanjing BioSciKin Asset Management Co., Ltd.	1,588	3,166	3,221	1,415	1,343
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	–	–	750	–	704
	<u>20,516</u>	<u>37,157</u>	<u>59,009</u>	<u>20,519</u>	<u>25,572</u>
Provision of rental, property management and other related services					
Shanghai Youxu Medical Equipment Co., Ltd.	–	–	–	–	8
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>8</u>
Sales of property, plant and equipment					
BioSciKin Precision Medical Holding Group Co., Ltd.	274	–	–	–	–
	<u>274</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Purchase of property, plant and equipment					
Simcare Jiangsu Pharmaceutical Co., Ltd.	239	–	–	–	–
BioSciKin Precision Medical Holding Group Co., Ltd.	5,113	–	21	21	–
Nanjing BioSciKin Asset Management Co., Ltd.	–	52	–	–	–
Jiangsu BioSciKin Transformation Medical Technology Co., Ltd.	827	–	–	–	–
	<u>6,179</u>	<u>52</u>	<u>21</u>	<u>21</u>	<u>–</u>

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000	2020 RMB'000
Payments made on behalf of the Group					
BioSciKin Precision Medical Holding Group Co., Ltd.	-	-	2,117	1,236	-
Jiangsu Pharmaceutical Industrial Co., Ltd.	1,013	452	16	-	-
	<u>1,013</u>	<u>452</u>	<u>2,133</u>	<u>1,236</u>	<u>-</u>
Payments made on behalf of related parties					
Simcare Jiangsu Pharmaceutical Co., Ltd.	408	460	357	-	-
Jiangsu Simcere Medical Diagnostics Co., Ltd.	494	886	1,160	714	-
Simcere Pharmaceutical Holding Limited	4,390	3,251	390	-	-
	<u>5,292</u>	<u>4,597</u>	<u>1,907</u>	<u>714</u>	<u>-</u>
Government grants received on behalf of a related party					
Nanjing BioSciKin Technology Development Co., Ltd.	262,595	-	175,063	-	-
	<u>262,595</u>	<u>-</u>	<u>175,063</u>	<u>-</u>	<u>-</u>
Advance to an associate					
BCY Pharm Co., Ltd.	-	-	4,000	-	-
	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>-</u>
Cash received under share incentive scheme					
Simcere Pharmaceutical Holding Limited	-	17,100	44,300	-	-
	<u>-</u>	<u>17,100</u>	<u>44,300</u>	<u>-</u>	<u>-</u>
New loans from related parties					
Simcere Pharmaceutical Holding Limited	32,696	241,323	11,791	-	35,506
State Good Group Limited	1,361	55,572	5	-	-
	<u>34,057</u>	<u>296,895</u>	<u>11,796</u>	<u>-</u>	<u>35,506</u>

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000	2020 RMB'000
Interest expenses on loans from related parties					
Simcere Pharmaceutical Holding Limited	124	1,400	1,901	384	298
State Good Group Limited	395	1,852	2,160	1,429	–
Nanjing BioSciKin Technology Development Co., Ltd.	3,493	3,493	2,545	1,732	–
	<u>4,012</u>	<u>6,745</u>	<u>6,606</u>	<u>3,545</u>	<u>298</u>
New loans to related parties					
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	20,000	–	–	–
BioSciKin Precision Medical Holding Group Co., Ltd.	263,748	920,722	227,615	88,560	–
Simcere Pharmaceutical Holding Limited	–	–	189,013	156,409	–
Simcere Industrial Co., Limited	–	8	6	–	–
	<u>263,748</u>	<u>940,730</u>	<u>416,634</u>	<u>244,969</u>	<u>–</u>
Interest income on loans to related parties					
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	505	–	–	–
BCY Pharm Co., Ltd.	–	–	–	–	130
Simcere Pharmaceutical Holding Limited	–	–	3,816	675	–
BioSciKin Precision Medical Holding Group Co., Ltd.	9,185	18,844	9,639	8,920	–
Shanghai BioSciKin Investment Management Co., Ltd.	10,875	10,875	7,896	5,393	–
	<u>20,060</u>	<u>30,224</u>	<u>21,351</u>	<u>14,988</u>	<u>130</u>

(e) Significant related party balances

At December 31, 2017, 2018 and 2019 and June 30, 2020, the Group had following trade in nature balances with related parties:

Trade in nature:	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade receivables (Note 21)				
Jiangsu Simcare Pharmaceutical Co., Ltd.	1,755	2,394	620	2,120
Simcare Jiangsu Pharmaceutical Co., Ltd.	–	–	66	515
Beijing Sanroad Biological Products Co., Ltd.	–	5,003	8,736	10,209
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	4,000	439	–
Shanghai Youxu Medical Equipment Co., Ltd.	–	–	–	9
	<u>1,755</u>	<u>11,397</u>	<u>9,861</u>	<u>12,853</u>
Prepayments, deposits and other receivables (Note 22)				
Nanjing Fuantang Pharmaceutical Co., Ltd.	29	–	–	–
Jiangsu Yoai Technology Co., Ltd.	–	–	26	93
Simcare Jiangsu Pharmaceutical Co., Ltd.	1,909	2,370	–	–
Jiangsu Simcere Medical Diagnostics Co., Ltd.	494	111	–	112
Beijing Sanroad Biological Products Co., Ltd.	5,000	5,174	5,000	5,000
BioSciKin Precision Medical Holding Group Co., Ltd.	2,893	–	–	–
Xuancheng Menovo Pharmaceutical Co., Ltd.	–	–	–	356
Nanjing Medway Culture Media Co., Ltd.	–	–	–	66
Jiangsu Simcare Pharmaceutical Co., Ltd.	100	1,418	–	100
	<u>10,425</u>	<u>9,073</u>	<u>5,026</u>	<u>5,727</u>

Trade in nature:	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Trade payables (Note 28)				
Simcare Jiangsu Pharmaceutical Co., Ltd.	847	970	–	–
Jiangsu Simcare Pharmaceutical Co., Ltd.	–	–	1,637	1,549
Beijing Sanroad Biological Products Co., Ltd.	55	–	–	–
BioSciKin Precision Medical Holding Group Co., Ltd.	3,549	–	–	–
Jiangsu Yoai Technology Co., Ltd.	–	352	–	–
	<u>4,451</u>	<u>1,322</u>	<u>1,637</u>	<u>1,549</u>
Other payables and accruals (Note 29)				
Nanjing BioSciKin Technology Development Co., Ltd.	–	1,030	–	–
Nanjing BioSciKin Innovative Pharmaceutical Retail Co., Ltd.	–	–	150	–
Jiangsu Simcere Medical Diagnostics Co., Ltd.	–	–	480	–
Simcare Jiangsu Pharmaceutical Co., Ltd.	–	–	1	–
Nanjing Medway Culture Media Co. Ltd.	–	–	213	–
Jiangsu Simcare Pharmaceutical Co., Ltd.	–	–	74	–
Nanjing BioSciKin Asset Management Co., Ltd.	–	445	135	3
BioSciKin Precision Medical Holding Group Co., Ltd.	–	3,889	10,424	1,682
State Good Group Limited	17	17	–	–
Nanjing BioSciKin Pharmaceutical Industrial Co., Ltd.	600	–	–	–
	<u>617</u>	<u>5,381</u>	<u>11,477</u>	<u>1,685</u>

At December 31, 2017, 2018 and 2019 and June 30, 2020, the Group had following non-trade in nature balances with related parties:

Non-trade in nature:	At December 31,			As at
	2017 RMB'000	2018 RMB'000	2019 RMB'000	June 30, 2020 RMB'000
Interest in associates (Note 15)				
BCY Pharm Co., Ltd.	–	–	4,000	–
Loans to related parties and third parties (Note 23)				
BioSciKin Precision Medical Holding Group Co., Ltd.	236,065	397,525	–	–
Simcare Jiangsu Pharmaceutical Co., Ltd.	58	58	–	–
Shanghai BioSciKin Investment Management Co., Ltd.	268,324	279,199	–	–
Simcere Industrial Co., Limited	–	8	–	–
	<u>504,447</u>	<u>676,790</u>	<u>–</u>	<u>–</u>
Loans from related parties (Note 26)				
Nanjing BioSciKin Technology Development Co., Ltd.	99,806	103,299	–	–
Simcere Pharmaceutical Holding Limited	27,904	31,984	–	–
State Good Group Limited	11,145	68,569	–	–
	<u>138,855</u>	<u>203,852</u>	<u>–</u>	<u>–</u>
Other payables and accruals (Note 29)				
Nanjing BioSciKin Technology Development Co., Ltd.	262,595	–	–	–
Simcere Pharmaceutical Holding Limited	54,270	419,063	112,029	112,029
Hainan Simcere BioSciKin Technology Development Co., Ltd.	15,822	15,822	–	–
	<u>332,687</u>	<u>434,885</u>	<u>112,029</u>	<u>112,029</u>

The directors of the Company confirm that the non-trade balance will be settled before the listing of the Company's shares on the Stock Exchange.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents, restricted deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2017, 2018 and 2019 and June 30, 2020, 6%, 9%, 5% and 2%, respectively, of trade receivables were due from the Group's largest customer and 16%, 18%, 14% and 12%, respectively, of trade receivables were due from the Group's five largest customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

	At December 31, 2017		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Current (not past due)	0.5%	174,151	927
Less than 3 months past due	1.3%	95,548	1,212
More than 3 months but less than 12 months past due	12.3%	5,799	713
More than 12 months past due	73.4%	10,734	7,882
		286,232	10,734
		286,232	10,734

	At December 31, 2018		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due)	0.4%	362,129	1,309
Less than 3 months past due	1.0%	171,370	1,715
More than 3 months but less than 12 months past due	14.5%	8,562	1,243
More than 12 months past due	64.4%	11,998	7,731
		<u>554,059</u>	<u>11,998</u>

	At December 31, 2019		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due)	0.2%	522,956	1,183
Less than 3 months past due	0.4%	412,020	1,790
More than 3 months but less than 12 months past due	5.6%	37,355	2,074
More than 12 months past due	60.5%	12,786	7,739
		<u>985,117</u>	<u>12,786</u>

	At June 30, 2020		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due)	0.2%	658,966	1,279
Less than 3 months past due	0.4%	224,795	899
More than 3 months but less than 12 months past due	3.2%	391,553	12,685
More than 12 months past due	58.6%	9,444	5,533
		<u>1,284,758</u>	<u>20,396</u>

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance in respect of trade receivables during the Relevant Periods is as follows:

	As at December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
At the beginning of the year/period	6,077	10,734	11,998	12,786
Impairment loss recognized	4,657	1,264	788	7,610
At the end of the year/period	<u>10,734</u>	<u>11,998</u>	<u>12,786</u>	<u>20,396</u>

The following significant changes in the gross carrying amounts of trade receivables contributed to the change in the loss allowance during the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020:

- origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB353,000 and RMB382,000, a decrease of RMB126,000 and an increase of RMB96,000, respectively; and
- change in past due trade receivables resulted in an increase in loss allowance of RMB4,304,000, RMB882,000 and RMB914,000 and RMB7,514,000, respectively.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	At December 31, 2017				Total	Carrying amount at December 31, 2017
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	875,803	226,678	44,379	45,453	1,192,313	1,153,057
Lease liabilities	20,490	5,655	134	81	26,360	25,695
Loans from related parties	138,855	–	–	–	138,855	138,855
Trade and bills payables	215,100	–	–	–	215,100	215,100
Other payables and accruals	1,262,628	1,000	1,000	–	1,264,628	1,264,628
	<u>2,512,876</u>	<u>233,333</u>	<u>45,513</u>	<u>45,534</u>	<u>2,837,256</u>	<u>2,797,335</u>

	At December 31, 2018					Carrying amount at December 31, 2018 RMB'000
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Bank loans	2,013,150	14,963	43,870	30,999	2,102,982	2,057,340
Lease liabilities	15,816	9,350	26,864	11,848	63,878	56,668
Loans from related parties	203,852	–	–	–	203,852	203,852
Trade and bills payables	307,557	–	–	–	307,557	307,557
Other payables and accruals	1,506,967	1,000	–	–	1,507,967	1,507,967
	<u>4,047,342</u>	<u>25,313</u>	<u>70,734</u>	<u>42,847</u>	<u>4,186,236</u>	<u>4,133,384</u>

	At December 31, 2019					Carrying amount at December 31, 2019 RMB'000
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Bank loans	1,719,142	246,708	920,729	16,715	2,903,294	2,783,149
Lease liabilities	32,505	31,801	94,068	19,369	177,743	157,807
Trade and bills payables	254,851	–	–	–	254,851	254,851
Other payables and accruals	1,417,945	–	–	–	1,417,945	1,417,945
	<u>3,424,443</u>	<u>278,509</u>	<u>1,014,797</u>	<u>36,084</u>	<u>4,753,833</u>	<u>4,613,752</u>

	At June 30, 2020					Carrying amount at June 30, 2020 RMB'000
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Bank loans	2,365,600	1,048,999	168,970	16,715	3,600,284	3,480,425
Lease liabilities	47,815	46,782	128,735	72,222	295,554	257,505
Trade and bills payables	220,459	–	–	–	220,459	220,459
Other payables and accruals	1,325,363	–	–	–	1,325,363	1,325,363
	<u>3,959,237</u>	<u>1,095,781</u>	<u>297,705</u>	<u>88,937</u>	<u>5,441,660</u>	<u>5,283,752</u>

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below:

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings as at the end of each reporting period:

	2017		At December 31, 2018		2019		As at June 30, 2020	
	Effective	Amount RMB'000	Effective	Amount RMB'000	Effective	Amount RMB'000	Effective	Amount RMB'000
	Interest rate %		Interest rate %		Interest rate %		Interest rate %	
Fixed rate borrowings:								
Bank loans	0.85%-4.9%	1,153,057	1.2%-5.22%	1,883,816	0.37%-4.90%	2,783,149	0.37%-4.90%	3,302,661
Lease liabilities	4.54%	25,695	4.54%	56,668	4.54%	157,807	3.97%-4.54%	257,505
Loans from related parties	4.35%	138,855	4.35%	203,852		-		-
		<u>1,317,607</u>		<u>2,144,336</u>		<u>2,940,956</u>		<u>3,560,166</u>
Variable rate borrowings:								
Bank loans		-	LIBOR+1.3%	173,524		-	LIBOR+1.1%	177,764
Total borrowings		<u>1,317,607</u>		<u>2,317,860</u>		<u>2,940,956</u>		<u>3,737,930</u>
Fixed rate borrowings as a percentage of total borrowings		<u>100%</u>		<u>92.51%</u>		<u>100%</u>		<u>95.24%</u>

(ii) Sensitivity analysis

The Group's interest-bearing financial instruments at variable rates as at December 31, 2018 and June 30, 2020 are mainly bank loans, and the cash flow interest risk arising from the change of market interest rate on these balances of relatively short maturity is not considered significant. The Group's interest-bearing financial instruments at fixed interest rates at the end of each reporting period are loans and lease liabilities that are measured at amortized cost, and the change of market interest rate does not expose the Group to fair value interest risk. Overall speaking, the Group's exposure to interest rate risk is not significant.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and borrowings which give rise to cash balances and bank loans that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD, EUR and GBP.

(i) Exposure to currency risk

The following table details the Group's exposure as at December 31, 2017, 2018 and 2019 and June 30, 2020 to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in RMB translated using the spot rate of the end of each reporting period. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than RMB into the Group's presentation currency are excluded.

	At December 31,			As at
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
<i>USD</i>				
Cash and cash equivalents	1	14,417	66	66
Net exposure	1	14,417	66	66
<i>EUR</i>				
Cash and cash equivalents	3,692	1,144	967	38
Bank loans	(210,662)	(211,877)	(647,583)	(855,608)
Net exposure	(206,970)	(210,733)	(646,616)	(855,570)
<i>GBP</i>				
Cash and cash equivalents	9	26	25	135
Bank loans	(175,584)	(173,524)	–	–
Net exposure	(175,575)	(173,498)	25	135

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant.

	2017		2018		2019		Six months ended June 30, 2020	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000
USD	5% (5%)	– –	5% (5%)	541 (541)	5% (5%)	2 (2)	5% (5%)	2 (2)
EUR	5% (5%)	(8,796) 8,796	5% (5%)	(8,956) 8,956	5% (5%)	(26,920) 26,920	5% (5%)	(34,778) 34,778
GBP	5% (5%)	(7,330) 7,330	5% (5%)	(7,244) 7,244	5% (5%)	1 (1)	5% (5%)	5 (5)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at December 31, 2017, 2018 and 2019 and June 30, 2020. The analysis excludes differences that would result from the translation of the financial statements of entities whose functional currency is not RMB. The analysis is performed on the same basis for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020.

*(e) Fair value measurement**Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Analysis on fair value measurement of derivative financial instruments as at December 31, 2017, 2018 and 2019 and June 30, 2020 are as follows:

	Fair value at December 31, 2017 RMB'000	Fair value measurement at December 31, 2017 categorized into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	44,738	44,738	–	–
– Unlisted equity securities	6,793	–	–	6,793
Financial assets at FVPL				
– Unlisted investments	36,219	–	–	36,219
– Unlisted units in investment funds	733,488	–	–	733,488
– Structured deposits and wealth management products	506,283	–	–	506,283
Trading securities				
– Listed equity securities	2,858	2,858	–	–
	Fair value at December 31, 2018 RMB'000	Fair value measurement at December 31, 2018 categorized into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	31,242	31,242	–	–
– Unlisted equity securities	–	–	–	–
Financial assets at FVPL				
– Unlisted investments	50,249	–	–	50,249
– Unlisted units in investment funds	809,415	–	–	809,415
– Structured deposits and wealth management products	261,062	–	–	261,062
Trading securities				
– Listed equity securities	2,286	2,286	–	–

	Fair value at December 31, 2019 RMB'000	Fair value measurement at December 31, 2019 categorized into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	43,179	43,179	–	–
– Unlisted equity securities	114,010	–	–	114,010
Financial assets at FVPL				
– Unlisted investments	64,115	–	–	64,115
– Unlisted units in investment funds	837,726	–	–	837,726
– Structured deposits and wealth management products	543,938	–	–	543,938
Trading securities				
– Listed equity securities	3,058	3,058	–	–
	Fair value at June 30, 2020 RMB'000	Fair value measurement at June 30, 2020 categorized into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	205,732	205,732	–	–
– Unlisted equity securities	30,000	–	–	30,000
Financial assets at FVPL				
– Unlisted investments	85,741	–	–	85,741
– Unlisted units in investment funds	811,833	–	–	811,833
Trading securities				
– Listed equity securities	2,956	2,956	–	–

During the years ended December 31, 2017 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. During the year ended December 31, 2018 and the six months ended June 30, 2020, there were transfers of amount of RMB1,563,000 and RMB204,133,000, respectively, from Level 3 to Level 1 due to the listing of the equity security. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Unlisted equity securities	Backsolve from recent transaction price (<i>Note i</i>)	IPO probability
Unlisted investments	Backsolve from recent transaction price (<i>Note i</i>) Valuation multiples (<i>Note ii</i>)	IPO probability Changing trend of medium market multiples of comparable companies
Unlisted units in investment funds	Net asset value (<i>Note iii</i>)	Net asset value of underlying investments
Structured deposits and wealth management products	Discounted cash flow (<i>Note iv</i>)	Expected return rate

Notes:

- (i) The fair value of unlisted equity securities and certain unlisted investments is determined using backsolve method with recent transaction price adjusted for IPO probability. The fair value measurement is positively correlated to the IPO probability. As at December 31, 2017, 2018 and 2019 and June 30, 2020, it is estimated that with all other variables held constant, an increase/decrease in IPO probability by 5% would have increased/decreased the Group's profit for the year/period by RMB278,000, RMB335,000, RMB851,000 and RMB2,187,000, respectively and increased/decreased the Group's other comprehensive income by RMB255,000, RMB nil, RMB4,845,000 and RMB1,275,000, respectively.
- (ii) The fair value of certain unlisted investments is determined using valuation multiples adjusted for changing trend of medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at December 31, 2017, 2018 and 2019 and June 30, 2020, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies by 5% would have increased/decreased the Group's profit for the year/period by RMB1,262,000, RMB1,800,000, RMB1,874,000 and RMB1,457,000, respectively.
- (iii) The fair value of unlisted units in investment funds is determined referencing net asset value of underlying investments. The fair value measurement is positively correlated to net asset value of underlying investments. As at December 31, 2017, 2018 and 2019 and June 30, 2020, it is estimated that with all other variables held constant, an increase/decrease in net asset value of underlying investments by 5% would have increased/decreased the Group's profit for the year/period by RMB31,173,000, RMB34,400,000, RMB35,603,000 and RMB34,503,000, respectively.
- (iv) The fair value of structured deposits and wealth management products is calculated by discounting the expected future cash flows. The fair value measurement is negatively correlated to expected return rate. As at December 31, 2017, 2018 and 2019 and June 30, 2020, it is estimated that with all other variables held constant, a decrease/increase in fair value of structured deposits and wealth management products by 5% would have increased/decreased the Group's profit for the year/period by RMB21,517,000, RMB11,095,000, RMB23,117,000 and RMB nil, respectively.

The fair values of unlisted equity securities, unlisted investments and unlisted units in investment funds are determined using the recent comparable transaction price, if available, valuation multiples technique with comparable companies or net asset value of underlying investments. The fair values of the structured deposits and wealth management products have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	Financial assets at FVOCI RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
As at January 1, 2017	13,874	862,699	876,573
Net realized and unrealized gains on financial assets at fair value through profit or loss	–	(166,495)	(166,495)
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)	(7,081)	–	(7,081)
Purchases	–	1,407,764	1,407,764
Sales and settlements	–	(804,613)	(804,613)
Exchange difference	–	(23,365)	(23,365)
As at December 31, 2017 and January 1, 2018	<u>6,793</u>	<u>1,275,990</u>	<u>1,282,783</u>
Net realized and unrealized gains on financial assets at fair value through profit or loss	–	81,669	81,669
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)	(5,230)	–	(5,230)
Purchases	–	896,712	896,712
Sales and settlements	–	(1,154,026)	(1,154,026)
Exchange difference	–	20,381	20,381
Transfer into Level 1	(1,563)	–	(1,563)
As at December 31, 2018 and January 1, 2019	<u>–</u>	<u>1,120,726</u>	<u>1,120,726</u>
Net realized and unrealized gains on financial assets at fair value through profit or loss	–	18,837	18,837
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)	(23,091)	–	(23,091)
Purchases	137,101	1,272,954	1,410,055
Sales and settlements	–	(972,980)	(972,980)
Exchange difference	–	6,242	6,242
As at December 31, 2019 and January 1, 2020	<u>114,010</u>	<u>1,445,779</u>	<u>1,559,789</u>
Net realized and unrealized losses on financial assets at fair value through profit or loss	–	(2,431)	(2,431)
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)	120,123	–	120,123
Purchases	–	85,527	85,527
Sales and settlements	–	(637,898)	(637,898)
Exchange difference	–	6,597	6,597
Transfer into Level 1	(204,133)	–	(204,133)
As at June 30, 2020	<u>30,000</u>	<u>897,574</u>	<u>927,574</u>

All financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at December 31, 2017, 2018 and 2019 and June 30, 2020.

38 BUSINESS COMBINATION

On April 30, 2020, Nanjing BioSciKin Biotechnology Development Co., Ltd., the Group's wholly owned subsidiary incorporated in the PRC, entered into an agreement with BCY Pharm Co., Ltd. and its shareholders, and acquired additional 19.14% equity interest of BCY Pharm Co., Ltd., through additional capital injection of RMB40,000,000. Upon the completion of the transaction on May 13, 2020, the Group held 52.14% equity interest in BCY Pharm Co., Ltd. and BCY Pharm Co., Ltd. became a subsidiary of the Group.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	Fair value on acquisition <i>RMB'000</i>
Property, plant and equipment	174
Intangible assets	60,700
Prepayments and deposits	150
Prepayments, deposits and other receivables	14,377
Cash and cash equivalents	23,879
Trade and bills payables	(457)
Other payables and accruals	(1,780)
Deferred tax liabilities	(15,175)
Identified net assets	81,868
Less:	
Non-controlling interest, based on proportionate interest in the recognized assets of identified net assets	(39,182)
Group's share of net assets of BCY Pharm Co., Ltd.	42,686

Goodwill arising from the acquisition has been recognized as below:

	<i>RMB'000</i>
Cash consideration through capital injection	40,000
Non-controlling interest, based on proportionate interest in the recognized assets of identified net assets	39,182
Fair value of pre-existing 33% of equity interest in BCY Pharm Co., Ltd.	33,000
Fair value of identifiable net assets	(81,868)
Group's share of net assets of BCY Pharm Co., Ltd.	30,314

Satisfied by:

	<i>RMB'000</i>
Cash consideration through capital injection	40,000
Carrying amount of interest in BCY Pharm Co., Ltd. prior to business combination	31,238
Gain arising from business combination	1,762
Group's share of net assets of BCY Pharm Co., Ltd.	33,000
Total consideration	73,000

Analysis of the net cash inflow in respect of business combination:

	<i>RMB'000</i>
Cash and cash equivalents acquired	23,879
Less: cash consideration paid through capital injection during the six months ended June 30, 2020	(22,120)
Net cash inflow on acquisition	<u>1,759</u>

The fair value of net identifiable assets of BCY Pharm Co., Ltd. is determined by the directors of the Company with reference to the valuation performed by independent valuation firm on the acquisition date.

From the date of acquisition to June 30, 2020, BCY Pharm Co., Ltd. contributed revenue of RMB nil and net loss of RMB1,427,000.

39 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2017, 2018 and 2019 and June 30, 2020, the directors of the Company consider the immediate parent of the Group is Simcere Pharmaceutical Holding Limited, a company incorporated in Cayman Islands. The ultimate controlling party of the Group is Mr. Ren Jinsheng, Chairman of the Group. Simcere Pharmaceutical Holding Limited does not produce financial statements available for public use.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD BEGINNING ON JANUARY 1, 2020

Up to date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance Contracts*, which are not yet effective for the period beginning on January 1, 2020 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	January 1, 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	January 1, 2022
Amendments to HKAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	January 1, 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	January 1, 2022
Amendment to HKFRS 16, <i>Covid-19-Related Rent Concessions</i>	June 1, 2020
Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i>	January 1, 2023
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	No mandatory effective date yet determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

41 SUBSEQUENT EVENTS

- (a) The novel coronavirus (“COVID-19”) outbreak since early 2020 has affected business and economic activities to some extent. Up to the date of issuance of Historical Financial Information, the COVID-19 outbreak has caused the postponements or cancellation of the Group’s certain marketing and promotion activities, as well as the research and development activities. The COVID-19 outbreak has brought additional uncertainties in the Group’s operating environment in 2020 and the Group will continuously assess and monitor its impact on the Group’s financial performance.

- (b) On July 30, 2020, Simcere Pharmaceutical, the Group’s wholly owned subsidiary incorporated in the PRC, entered into a share transfer agreement with a third party partnership established in the PRC, and disposed 49% equity interest of the Group’s associate incorporated in the PRC, Xuancheng Menovo, at a cash consideration of RMB118,418,000.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to June 30, 2020.