The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code:3933)

2019 ANNUAL REPORT

Our mission is to make life more valuable

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CORPORATE CALENDAR OF 2019

January

- The United Laboratories was honored "2018 Golden Hong Kong Stocks – Most Valuable Pharmaceutical Company and Medical Stock".

February

- The United Laboratories was honored "Medical Technology Innovation Advanced Company of Zhuhai for 2018".

March

- The United Laboratories was further listed as one of the "China Top Ten Member Exporters of APIs".
- The United Animal Healthcare (Inner Mongolia) Co., Ltd. passed the "High-Tech Enterprise" certification.
- "Double-Excellence Action – Grassroots Diabetes Prevention and Treatment Management Training Course" was kicked off in Zhengzhou, Henan Province.

April

- "2019 Forum on Hospital Pharmacy Changes and Development in the Context of Healthcare and Medical Institution Reform", sponsored by The Science and Technology Development Center of Chinese Pharmaceutical Association and co-sponsored by The United Laboratories, was held successfully in Zhuhai, Guangdong.
- The United Laboratories Clinical Department (Guangzhou branch) was established.

May

- The United Animal Healthcare (Inner Mongolia) Co., Ltd. was named "China's Leading Domestic Brand" at Brand Summit China 2019.

June

- The United Laboratories was awarded "Quality Suppliers and Partners in the World Market" and "Prize of Special Contribution for CCCMHPIE's 30th Anniversary" by China Chamber of Commerce for Import & Export of Medicines & Health Products.

July

- Mr. Tsoi Hoi Shan, Chairman of the Board of The United Laboratories, was honored as "Guangdong New Economy – Outstanding Entrepreneur" for the year of 2019.
- The United Laboratories was listed among "2018 China Pharmaceutical Industry Top 100 Companies" and ranked 25th.
- Powder injection of "Amoxicillin and Clavulanate Potassium for Injection", a veterinary product developed by The United Animal Healthcare (Inner Mongolia) Co., Ltd., was approved for marketing.

CORPORATE CALENDAR OF 019

August

- The United Laboratories was awarded "2018 China Pharmaceutical Industry Top 100 Companies" (ranking the 22nd) by China National Pharmaceutical Industry Information Center.
- The United Laboratories and Evergrande (Chengdu) entered into the Investment and Cooperation Agreement with respect to the equity interest of United Laboratories (Chengdu) and development of the Land.

September

- Insulin degludee injection of The United Laboratories was approved for clinical trial.
- Zhuhai United Laboratories was listed in the fourth batch of national green plant models issued by the Ministry of Industry and Information Technology.

October

- Zhuhai United Laboratories was awarded "2019 China Pharmaceutical Industry Top 100 Companies with Comprehensive Strength" (ranking the 18th) and "Leading Export Brand of Bulk Medicine of China's Pharmaceutical Industry" by China Pharmaceutical Industry Association.

November

- The United Laboratories entered into a facility agreement for dual currency syndicated loans in the amount equivalent to up to HK$2 billion for a term of three years.
- The Quality Control Center of Zhuhai United Laboratories passed the certification of China National Accreditation Service for Conformity Assessment (CNAS) for a second time.
- "Study on Quality and Efficacy Consistency Evaluation of Amoxicillin Capsule (0.25g) and Cefuroxime Axetil Tablet (0.25g)" was named Zhongshan Healthcare Industry Development Project 2019 and granted financial subsidies.

December

- "Technology Development of New Drug for Rheumatoid Arthritis Treatment" was named Zhongshan 4th Batch of Specially-Funded Technology Development Project 2019 and granted financial subsidies.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent non-executive directors

Mr. Chong Peng Oon
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Ms. Fu Xiao Nan

RISK MANAGEMENT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Mr. Leung Wing Hon
Ms. Choy Siu Chit

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd., Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
China Resources Bank of Zhuhai Co., Ltd.
Guangdong Huaxing Bank Co., Ltd., Zhuhai Branch
Industrial and Commercial Bank of China Limited, Zhuhai Branch
Bank of China Limited, Zhuhai Branch

Hong Kong

China Development Bank, Hong Kong Branch
Taipei Fubon Commercial Bank Co., Limited, Hong Kong Branch
Hang Seng Bank Limited
Bank of Communications Co., Ltd., Hong Kong Branch
China Everbright Bank Co., Ltd., Hong Kong Branch
Chiyu Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

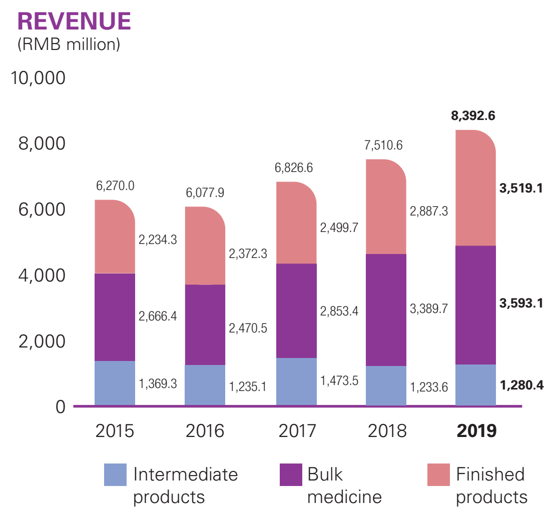
Computershare Hong Kong Investor Services Limited

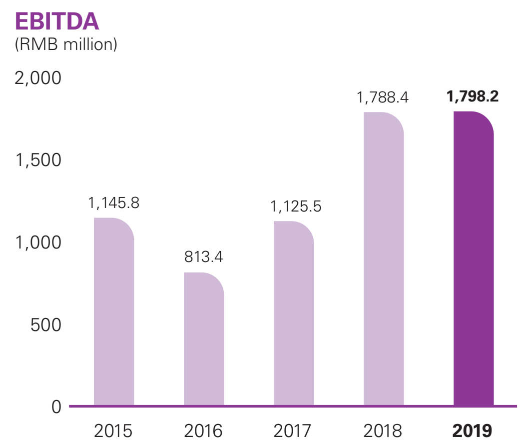
WEBSITE

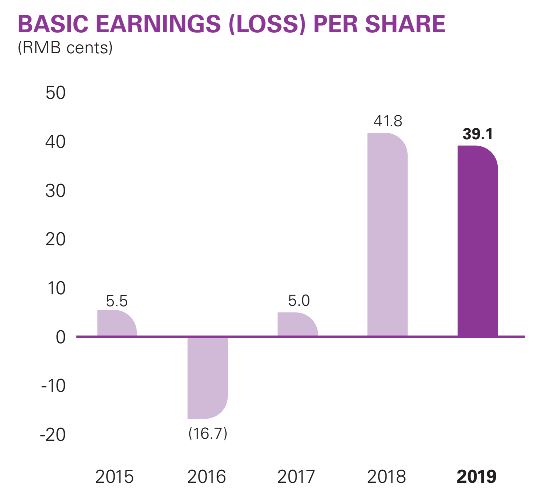
www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

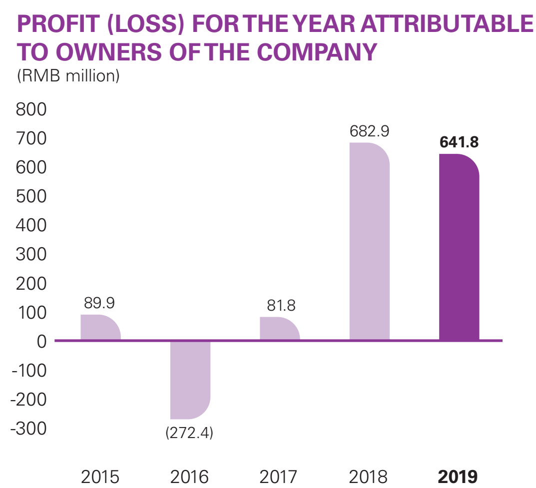
FINANCIAL HIGHLIGHTS

	2019 RMB'000	2018 RMB'000	Increase (decrease) %
Revenue	**8,392,600**	7,510,586	11.7%
EBITDA	**1,798,222**	1,788,400	0.5%
Profit before taxation	**841,652**	793,879	6.0%
Profit for the year attributable to owners of the Company	**641,764**	682,928	(6.0%)
Earnings per share			
Basic	**RMB39.14 cents**	RMB41.80 cents	(6.4%)
Diluted	**RMB39.14 cents**	RMB32.27 cents	21.3%









CHAIRMAN'S STATEMENT

Mr. Tsoi Hoi Shan
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company" or "The United Laboratories"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

In 2019, the global economy slowed down under the influence of Brexit, China-US trade war and other factors. China's GDP was close to RMB100 trillion during the year, growing by 6.1% as compared with 2018. In spite of the pressure of global economic slowdown and trade wars, China's macro economy still grew within a reasonable range, and indicators including consumption, investment and industry were all stable.

During the year, the government further deepened the comprehensive reform of public hospitals, achieved positive interactions in three aspects, "medical insurance, medical treatment and pharmacy", and advanced health care reform and industry standardisation. In the meantime, the government extended the scope of drug bulky procurement, adjusted the catalog of medicines covered by national medical insurance system, and accelerated the injection consistency evaluation, all of which manifested the State's determination in promoting drug supply-side reform, deepening health care reform and improving the quality of domestic drugs. As the industry reform goes deeper, the concentration of the pharmaceutical industry will further improve, and China's generic drug sector will accelerate industrial consolidation and innovation-driven upgrading.

CHAIRMAN'S STATEMENT

During the year, the Group's revenue amounted to RMB8,392.6 million, representing an increase of approximately 11.7% over 2018. EBITDA was approximately RMB1,798.2 million, representing an increase of 0.5% as compared with last year. Profit attributable to owners of the Company was RMB641.8 million, representing a decrease of 6.0% as compared with last year. Earnings per share amounted to RMB39.14 cents. The Board proposes a final dividend of RMB7 cents per share for the year ended 31 December 2019.

The Group's finished products recorded segment revenue of RMB3,519.1 million, representing a year-on-year increase of 21.9%. In particular, insulin series continued to be the driver for the growth of finished products business, and recorded an aggregate sales revenue of approximately RMB900 million during the year, representing an increase of approximately 30% as compared with 2018. Sales volume of recombinant human insulin injections and insulin glargine injections increased by 12.7% and 158.5% respectively, as compared with last year.

The Group's other finished products maintained steady growth. In particular, Piperacillin Sodium and Tazobactam Sodium for Injection recorded a year-on-year increase of 44.0% in sales revenue, securing the title of single-product sales champion of finished products. Amoxicillin capsules recorded a year-on-year increase of 17.8% in sales revenue. In addition, memantine hydrochloride series, a drug to treat moderate and severe Alzheimer's disease, saw an ideal growth and recorded a year-on-year increase of 77.3% in sales revenue.

The Group's intermediate products and bulk medicine segments recorded external sales of RMB1,280.4 million and RMB3,593.1 million, respectively, representing year-on-year growth of 3.8% and 6.0% respectively. During the year, the price of semi-synthetic penicillin bulk medicine fluctuated slightly, and the price of 6-APA gradually decreased to a low level as the market supply capacity recovered, thus resulting in impact on revenue and result of intermediate products segment. Export sales grew steadily. During the year, the Group's overseas export sales recorded an increase of 23.7% over last year. The Group continued to occupy a leading position in the export market of intermediate products and bulk medicine, and was further listed as one of the "China Top Ten Member Exporters of APIs" again by China Chamber of Commerce for Import & Export of Medicines & Health Products.

The Group has been committed to research and development on a continual basis and currently has 29 new products under development, which is expected to further enrich the reserve of finished products. In particular, the Group has applied for production of insulin aspart injection and insulin aspart 30 injection and launched clinical trial for liraglutide injection; the clinical trial of insulin degludec injection has been approved in September 2019. Based on the increasingly perfect biological R&D platform, the Group will continue to expand its development of relevant products in the fields of internal secretion and autoimmune disease. With regard to the research and development of chemical pharmaceuticals, the Group remains focus on series of anti-HBV drugs and eye drops, and will continue to expand into new drugs.

CHAIRMAN'S STATEMENT

Upholding the sustainable development philosophy of "environment priority", the Group constantly increased investments in environmental protection with advanced technologies and enhanced environmental management with focus placed on the national environmental protection strategy. The "Reclaimed Water Reuse" project of The United Laboratories (Inner Mongolia) Co., Ltd. (聯邦制藥(內蒙古)有限公司) was in pilot run at the end of 2019 and will basically realise zero discharge of point source sewage in the future. In the meantime, amoxicillin bulk medicine of The United Laboratories (Inner Mongolia) Co., Ltd. successfully passed the European Union GMP on-site inspection, and won opportunities for the Group in the competitive European market. In addition, Zhuhai United Laboratories Co., Ltd. (珠海聯邦制藥股份有限公司) was included in the Fourth Batch of Green Manufacturer List issued by the Ministry of Industry and Information Technology and won the national "Green Plant" award, which demonstrated the recognition of the government to the Group's environmental protection efforts, and therefore further improved the Group's brand image and comprehensive influence.

OUTLOOK

Looking forward, the global economy will be on a downturn trend, and the COVID-19 pandemic will add greater pressure to China's overall economy. By virtue of the special attributes of the pharmaceutical industry, the Group faces both opportunities and challenges. Driven by demands resulted from the novel coronavirus pneumonia outbreak, sales of the Group's finished products, i.e. oral antibiotics and vitamin C effervescent tablets, increased significantly. As for the intermediate and bulk medicine business, as the epidemic spread and evolved into a worldwide pandemic, demands from domestic and overseas markets have been and are being on the rise, and prices of major intermediate and bulk medicine products stabilised and rebounded in 2020. As an enterprise that has been proactively performing its social responsibilities, the Group has cumulatively donated funds of over RMB4 million and epidemic prevention materials worth about RMB1 million to support the epidemic prevention and control. The Group will continue to contribute actively to the containment of the novel coronavirus pneumonia outbreak in China and around the world, and to the safeguard of human health.

Although the future is subject to greater macro-economic uncertainty, it is expected that China's pharmaceutical industry will continue to steadily promote the transformation, and the structure of pharmaceutical industry will be further improved, which will lead the industry to the high-quality development stage. The Group will continue to take insulin series as its strategic category, promote further sales growth and improve its market share.

CHAIRMAN'S STATEMENT

The Group will closely follow national pharmaceutical, environmental and economic and trade policies, actively seize market and industry opportunities, continuously improve the comprehensive competitiveness, accelerate the cultivation of R&D and innovation abilities, maintain its sustainable development momentum and therefore create greater benefit for shareholders, customers and stakeholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support in 2019, as well as all staff for their efforts and contributions. I hope we can join hands and create a better future together.

Tsoi Hoi Shan
Chairman

Hong Kong, 30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Leung Wing Hon
Vice-Chairman

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2019, the Group's revenue was approximately RMB8,392.6 million, an increase of 11.7% as compared with last year. The profit attributable to shareholders for the year ended 31 December 2019 was approximately RMB641.8 million while the profit for the year ended 31 December 2018 was approximately RMB682.9 million, representing a slightly decrease of 6.0%.

During the year, segmental revenue (including inter-segment sales) of bulk medicine and finished products increased by 8.2% and 21.9% respectively as compared with last year. Segmental result of bulk medicine and finished products increased by 124.3% and 27.3% respectively as compared with last year. Segmental revenue and result of intermediate products decreased by 1.9% and 69.6% respectively as compared with last year.

The fair value change of embedded derivative components of convertible bonds records a loss of approximately RMB110.1 million is mainly due to fluctuation in the share price of the Company during the year. Fair value loss of investment properties located in Chengdu amounted to RMB97.6 million (2018: RMB94.9 million).

During the year, the Group also recorded a gain of RMB200.4 million on disposal of a subsidiary, 聯邦制藥(成都)有限公司 (United Laboratories (Chengdu) Limited).

The Group's operations during the year are summarised as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Intermediate Products and Bulk Medicine

The Group's intermediate products and bulk medicine recorded segment external sales of RMB1,280.4 million and RMB3,593.1 million respectively, representing year-on-year growth of 3.8% and 6.0% respectively. During the year, the price of semi-synthetic penicillin bulk medicine fluctuated slightly, and the price of 6-APA gradually decreased to a low level as the market supply capacity recovered, thus resulting impact on revenue and result of intermediate products segment. In respect of export, in the face of the challenges in the international pharmaceutical bulk medicine market and the slower growth of China's imports and exports, the Group continued to optimise its product mix, deepen its development of global key pharmaceutical markets, and adhere to the international development, resulting in steady growth in export sales. During the year, the Group's overseas export recorded a sales revenue of RMB2,435.0 million, representing an increase of 23.7% over last year.

Executive directors from left to right:
Ms. Choy Siu Chit, Mr. Leung Wing Hon, Ms. Zou Xian Hong,
Mr. Tsoi Hoi Shan, Ms. Zhu Su Yan and Mr. Fang Yu Ping

MANAGEMENT DISCUSSION AND ANALYSIS

Finished Products

During the year, the Group's finished products business maintained continued growth and recorded a segment revenue of approximately RMB3,519.1 million, representing an increase of 21.9%, and segment profit of approximately RMB783.5 million, representing an increase of 27.3%. The increase in segment profits was contributed from change of product mix during the year with increase in sales of products with higher margin.

The Group's other finished products maintained steady growth. In particular, Piperacillin Sodium and Tazobactam Sodium for Injection (trade name: "联邦他唑仙") witnessed outstanding sales performance and recorded sales revenue of RMB694.9 million during the Year, representing a year-on-year increase of 44.0% and securing the title of single-product sales champion of finished products. Amoxicillin capsules (trade name: "联邦阿莫仙") recorded sales revenue of RMB531.5 milion, representing a year-on-year increase of 17.8%. In addition, memantine hydrochloride series, a drug to treat moderate and severe Alzheimer's disease, (trade name: "邦得清") saw an ideal growth and recorded sales revenue of RMB78.6 million during the Year, representing a year-on-year increase of 77.3%.

The Group's insulin series products continued to be the major driving force of the growth of finished products. Recombinant human insulin injections (trade name: "优思灵USLIN") realised sales volume of 16,829,000 vials, representing a year-on-year increase of 12.7%, and recorded sales revenue of RMB686.9 million, booking a growth higher than the industry average level. Insulin glargine injections (trade name: "联邦优乐灵USLEN") realised sales volume of 1,612,000 vials, representing a significant year-on-year increase of 158.5%, and recorded sales revenue of RMB222.7 million. Currently, insulin glargine products of the Group have won the tender through bidding in 25 provinces.

Research and Development

The Group has been committed to research and development on a continual basis. The expenditure on R&D for current year amounted to approximately RMB368.0 million, representing 29.9% increase as compared with last year. The Group currently has 29 new products under development, which is expected to further enrich the reserve of finished products. In particular, the Group has applied for production permit approval of insulin aspart injection and insulin aspart 30 injection and launched clinical trial for liraglutide injection; the clinical trial of insulin degludec injection has been approved in September 2019. Based on the increasingly perfect biological R&D platform, the Group will continue to expand its development of relevant products in the fields of internal secretion and autoimmune disease. With regard to the research and development of chemical pharmaceuticals, the Group remains focus on series of anti-HBV drugs and eye drops, and will continue to expand into new drugs.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales Team and Marketing

In order to effectively improve the management of grassroots diabetes prevention and treatment and promote the implementation of the grading diagnosis and treatment system during the year, the Group emphasised on support for the "Double-Excellence Action – Grassroots Diabetes Prevention and Treatment Management Training Course" project. During the year, the "Double-Excellence Action" project has cumulatively organised 21 sessions in 20 cities across the country for more than 8,000 grassroots medical personnel, and was highly praised by experts and medical personnel who had participated in it. The Group plans to further promote the "Double-Excellence Action" and build an academic communication and interaction platform to facilitate the standardisation of grassroots diabetes diagnosis and treatment and to actively guard the health of patients. At the same time, the Group has formulated a county expansion plan for the sales team of finished products and will gradually implement it. In the future, the Group will accelerate the promotion of terminal coverage and maintain a balanced and healthy development of various markets. The Group will be committed to supporting professional sales and promotion with an academic system and continuing to provide high-quality products and services to the pharmaceutical market.

Optimising Financing Structure

During the year, the Group continued to optimise its financial structure and improve the liquidity to ensure adequate working capital. In September 2019, the Group was provided with a 5-year loan facility of HK$300,000,000 by China Development Bank Hong Kong Branch for the "Reclaimed Water Reuse" project of The United Laboratories (Inner Mongolia) Co., Ltd. In addition, in November 2019, the Company entered into a syndicated loan agreement for the dual currency 3-year loan facilities in the amount equivalent to up to HK$2 billion. The loan facilities have been drawn successively, mainly used for repayment of bank loans and replenishment of the Company's liquidity. In February 2020, the Group fully repaid the RMB1,100,000,000 Corporate Bonds issued in China.

In August 2019, United Laboratories (Hong Kong) (a wholly-owned subsidiary of the Company) and Evergrande (Chengdu) entered into the Investment and Cooperation Agreement with respect to the equity interest of United Laboratories (Chengdu) and development of the Land, and realised a gain of RMB200.4 million.

As at 31 December 2019, bank balances and cash of the Group amounted to approximately RMB3,164.8 million (2018: RMB1,578.5 million), and the Group's net gearing ratio was further decreased to 36.41%.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 31 December 2019, the Group had pledged bank deposits and cash and bank balances amounting to approximately RMB3,889.8 million (2018: RMB2,134.3 million).

As at 31 December 2019, the Group had interest-bearing borrowings and bank overdraft of approximately RMB3,988.0 million (2018: RMB3,305.6 million), which were denominated in Hong Kong dollars, Renminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately RMB2,057.2 million are fixed rates loans while the remaining balance of approximately RMB1,930.8 million is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2019, current assets of the Group amounted to approximately RMB8,713.5 million (2018: RMB6,697.0 million). Net current assets increased from RMB181.8 million at 31 December 2018 to RMB2,254.7 million as at 31 December 2019. The Group's current ratio was approximately 1.35 as at 31 December 2019, as compared with 1.03 as at 31 December 2018. The short term financial position has improved significantly. As at 31 December 2019, the Group had total assets of approximately RMB15,699.7 million (2018: RMB14,602.3 million) and total liabilities of approximately RMB9,027.9 million (2018: RMB8,480.3 million), representing a net gearing ratio (calculated as total borrowings, bank overdraft, bills payables, obligations under finance leases and convertible bonds less other pledged deposits, pledged bank deposits, and cash and bank balances to total equity) of 36.41% as at 31 December 2019, as compared with 49.75% as at 31 December 2018.

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly denominated in Renminbi and Hong Kong dollars. The Group's borrowings are denominated in Hong Kong dollars, Renminbi, Euro and United States dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

Contingent Liabilities

As at 31 December 2019 and 2018, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook for 2020

Looking forward, the global economy will be on a downturn trend, and the COVID-19 pandemic will add greater pressure to China's overall economy. By virtue of the special attributes of the pharmaceutical industry, the Group faces both opportunities and challenges. Driven by demands resulted from the novel coronavirus pneumonia outbreak, sales of the Group's finished products, i.e. oral antibiotics and vitamin C effervescent tablets, increased significantly. As for the intermediate and bulk medicine business, as the epidemic spread and evolved into a worldwide pandemic, demands from domestic and overseas markets have been and are being on the rise, and prices of major intermediate and bulk medicine products stabilised and rebounded in 2020. In response to the country's call for resumption of work and production by enterprises required for epidemic containment, the Group organised employees to resume work efficiently and orderly according to its actual situation, and strictly ensured product quality, to actively cater for market demands. In order to ensure the supply of medicines for epidemic containment purpose, the Group provided epidemic containing medicines to Hubei and other regions as soon as possible. As at the end of February 2020, the Group has basically resumed to normal work in an all-round manner with stable operation and sound turnover of funds. As an enterprise that has been proactively performing its social responsibilities, the Group has cumulatively donated funds of over RMB4 million and epidemic prevention materials worth about RMB1 million to support the epidemic prevention and control. The Group will continue to contribute actively to the containment of the novel coronavirus pneumonia outbreak in China and around the world, and to the safeguard of human health.

Although the future is subject to greater macro-economic uncertainty, it is expected that China's pharmaceutical industry will continue to steadily promote the transformation, and the structure of pharmaceutical industry will be further improved, which will lead the industry to the high-quality development stage. The Group will continue to take insulin series as its strategic category, promote further sales growth and improve its market share. In addition, the Group will make balanced development as the top priority, continue to strengthen the building of academic platform through improving the management system, thus realising the all-round, balanced sustainable development of product, market, and sales team. As centralised procurement of drugs gradually run into a normal and integration of the industry structure accelerated, the Group will continue to monitor the development of pharmaceutical policies and participate in a timely manner. At the same time, it will increase its development efforts on and coverage over the out-of-hospital market, in cooperation with the ongoing county-level expansion plan of the finished product sales team. The Group will actively promote the ongoing research projects on diabetes and new drugs to further enrich its finished product reserve. As the market competition becomes less intense and the demands rise, prices of major products under the intermediate products and bulk medicine business will stabilise and rebound in 2020. In the future, following the industrial trend of segment integration among the intermediate product segment, the bulk medicine segment and the finished products segment, the Group will keep on optimizing its product offerings and capitalise on its industrialised operation strength resulted from vertical integration.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration

As at 31 December 2019, the Group had approximately 13,000 (2018: 12,200) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company is committed to ensure high standards of corporate governance in the interest of its shareholders.

The Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

– Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the year ended 31 December 2019, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that the non-executive directors should attend general meetings of the Company. Independent non-executive directors, Prof. Song Ming and Ms. Fu Xiao Nan were unable to attend the annual general meeting of the Company held on 4 June 2019 due to their other important engagements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

AUDIT COMMITTEE REVIEW

The Audit Committee comprises of three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed with the management of the Company the consolidated financial statements for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

(a) On 23 September 2019, the Company's indirect wholly-owned subsidiary The United Laboratories (Inner Mongolia) Co., Ltd., as borrower, entered into a facility agreement with China Development Bank Hong Kong Branch for HK$300,000,000 term loan facility. The loans under the facility shall be repaid by installments with the final repayment date falling 60 months from the first utilisation date.

The facility agreement imposes, among other matters, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Ning Kwai Chun and their family trusts collectively to own more than 51% of the entire issued capital of the Company.

(b) On 8 November 2019, the Company, as borrower, entered into a facility agreement with, among others, Bank of Communications Co. Ltd. Hong Kong Branch, Fubon Bank (Hong Kong) Limited, Hang Seng Bank Limited and Taipei Fubon Commercial Bank Co., Ltd., as mandated lead arrangers and bookrunners, for the dual currency term loan facilities in the amount equivalent to up to HK$2 billion. The loan under the facilities shall be repaid in installments within a 36 months term from the date of the facility agreement.

The facility agreement imposes that, among other matters, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Ning Kwai Chun and their family trusts (i) individually or collectively do not cease to be the single largest shareholder of the Company; (ii) individually or collectively hold at least 40% of the entire issued capital of the Company; and (iii) do not cease management control over the Company or the Group. Any breach of these obligations will result in the facilities being cancelled and the loans, together with accrued interest and all other amounts outstanding, will become payable within five business days.

(c) On 12 February 2020, the Company, as borrower, entered into a facility agreement with China Everbright Bank Hong Kong Branch for loan facility of HK$200,000,000 (or its equivalent amount in euro). The term loan under the facility shall be repaid in 12 months from the date of the facility agreement and extended to 24 months after obtaining bank's consent.

The facility agreement imposes, among other matters, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Ning Kwai Chun and their family trusts (i) individually or collectively do not cease to be the single largest shareholder of the Company; (ii) individually or collectively hold at least 40% of the entire issued capital of the Company; and (iii) do not cease to be the chairman of the Board and management control over the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan（蔡海山先生）, aged 42, is an executive director and the Chairman of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible for supervising the production process at the Hong Kong Yuen Long Plant and ensuring that it was in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is the brother of Ms. Choy Siu Chit, who is an executive director of the Company.

Mr. Leung Wing Hon（梁永康先生）, aged 58, is an executive director, the Vice-Chairman, the Chief Financial Officer and the Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of International Accountants and a fellow member of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom. Mr. Leung has over 20 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Ms. Choy Siu Chit（蔡紹哲女士）, aged 47, is an executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the sister of Mr. Tsoi Hoi Shan, an executive director and the Chairman of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Fang Yu Ping (方煜平先生), aged 57, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC, with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. Mr. Fang joined the Group in 1995 and was promoted to vice president of the Group in 2008. He was the general manager of China Sales Division of Finished Products from 2011 to 2018.

Ms. Zou Xian Hong (鄒鮮紅女士), aged 55, is an executive director of the Company and a vice president of the Group. Ms. Zou graduated from China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science of Central South University. Ms. Zou has over 30 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group. She was the general manager of China Sales Division of Finished Products from 2008 to 2010.

Ms. Zhu Su Yan (朱蘇燕女士), aged 55, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from Southeast University in the PRC in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and had served as regional manager of Jiangsu Province, vice president of national hospital development department and general manager of China Sales Division of Finished Products etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Independent non-executive directors

Mr. Chong Peng Oon (張品文先生), aged 71, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee, remuneration committee and risk management committee, and a member of the nomination committee of the Company. Mr. Chong was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and was recognised as a Fellow Member of the Institute in 1981. He was in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small and medium enterprises to large listed groups in the service and other sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax advisory business for companies in Hong Kong and China. He was a former member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Prof. Song Ming (宋敏教授), aged 58, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee, remuneration committee and Risk Management Committee of the Company. Prof. Song graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. Prof. Song is currently Dean of Economics and Management School of Wuhan University. Prof. Song is also an independent non-executive director of Great Wall Pan Asia Holdings Limited (Stock Code: 583), Guotai Junan International Holdings Limited (Stock Code: 1788) and Wuzhou International Holdings Limited (Stock Code: 1369), all are listed on the main board of the Stock Exchange of Hong Kong and an independent director of Tande Co., Ltd., a company listed on the Shanghai Stock Exchange.

Ms. Fu Xiao Nan (傅小楠女士), aged 50, has been appointed as an independent non-executive director of the Company on 10 December 2012. She is a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Fu has around twenty years of experience in investment banking and financial services. She is a partner of Phoenix Investment Company, which is incorporated in the PRC since March 2016. She joined Huatai United Securities in May 2011 and left in March 2016. Prior to joining Huatai United Securities, Ms. Fu held senior management positions in various investment banks. Ms. Fu is a registered sponsor representative of China Securities Regulatory Commission since 2007. Ms. Fu is an independent non-executive director of V.S. International Group Limited (Stock Code: 1002), a company listed on the main board of the Stock Exchange of Hong Kong. Ms. Fu holds a master degree in professional accounting and a degree in Executive Master in Business Administration from the Cheung Kong Graduate School of Business.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷先生), aged 53, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

Mr. Liu Bing Yang (劉炳楊先生), aged 69, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Zhang Wen Yu (張文玉先生), aged 51, is the general manager of United Laboratories (Inner Mongolia) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Inner Mongolia factory.

Mr. Zheng Shun Teng (鄭順騰先生), aged 43, is the operating general manager of the Group's intermediate and bulk medicine. Mr. Zheng graduated from China Pharmaceutical University in 2002, majoring in Pharmacy. Joining in 1997, he worked successively as the head of the orally-taken solid workshop, the assistant to manager of the production department, the manager of the procurement department, and the director of the powder injection workshop of Zhongshan factory. From July 2006 to 2013, he had been the Eastern China regional manager and senior regional manager of the Group's intermediate and bulk medicine sales department, the sales director of the Eastern China region and the Southern China region, and the sales director of the regions of India, Middle East and Africa. Mr. Zheng has been the operating general manager of the Group's intermediate and bulk medicine sales department since 2014, primarily responsible for sales and management of the Group's intermediate and bulk medicine products.

Ms. Chen Min (陳敏女士), aged 48, is the general manager of Group's China Sales Division of Finished Products. Ms. Chen graduated from Zhengzhou University majoring in business administration. She joined the Group in 1997 and had served as regional manager and vice general manager of the Henan province etc. Ms. Chen has extensive experience in the sales and marketing of pharmaceutical products. She was promoted to the Group's vice president and was responsible for the sales of the Henan province in 2012. She has been responsible for the sales of the Henan province and Beijing since 2015. Ms. Chen has been the general manager of the China Sales Division of Finished Products since 1 January 2019.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in note 46 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and segment information for the year ended 31 December 2019 is set out in note 5 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 41 of this annual report.

The Board recommends the payment of final dividend of RMB7 cents per share for the year ended 31 December 2019.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 160 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 34 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE PREMIUM AND RESERVES

In accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's articles of association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately RMB3,739.1 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 44 and 45 of this annual report.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2019, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

In 2019, the aggregate purchases attributable to the Group's largest and five largest suppliers accounted for 18.7% and 40.2% respectively of the Group's total purchases for the year.

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

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2019 and up to the date of this report were as follows:

Executive Directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent Non-Executive Directors

Mr. Chong Peng Oon
Prof. Song Ming
Ms. Fu Xiao Nan

In accordance with article 87 of the Company's articles of association, Mr. Tsoi Hoi Shan, Ms. Zou Xian Hong and Mr. Chong Peng Oon will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Biographical details of directors of the Company are set out on pages 18 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract with the Company. Mr. Tsoi shall be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$3,840,000 per annum.

Mr. Leung Wing Hon has entered into a service contract with the Company under which the annual salary payable by the Company to Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. He will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

REPORT OF THE DIRECTORS

Ms. Choy Siu Chit has entered into a service contract in November 2016 with the Company for a period of three years. Each party may terminate the service contract by giving not less than three months notice to other party. She is also required to retire by rotation at the annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Choy Siu Chit as an executive director is HK$3,000,000 per annum and will be entitled to a monthly travelling allowance of HK$50,000. She will also be entitled to a discretionary bonus as decided by the Board.

The basic emolument of Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive directors of the Company with reference to performance of the Group. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company.

The amount of the annual salary increment and the bonus payable under such service contracts for executive directors is at the discretion of the Board and the remuneration committee of the Company, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the Board in relation to him or her.

Each of Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan has entered into a letter of appointment with the Company. The annual director's fee for each of the above independent non-executive directors is HK$240,000.

Save as disclosed in this annual report, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACT

No contracts concerning the management or administration of the whole or any substantial part of the business were entered into or in existence during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

None of the directors have any interests in a business which competes with the business of the Group. Furthermore, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2019, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,306,875	Personal interest	0.99%
Mr. Leung Wing Hon	22,000	Personal interest	0.00%
Ms. Choy Siu Chit	97,875	Personal interest	0.01%
Mr. Fang Yu Ping	142,000	Personal interest	0.01%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	100,179	Personal interest	0.01%

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long and short positions in the ordinary shares of the Company:

Name	*Notes*	**Number of shares held**	**Percentage of Interest**
Heren Far East Limited ("Heren")		1,006,250,000(L)	61.31%
Heren Far East #3 Limited	*(1)*	1,006,250,000(L)	61.31%
Heren Far East #4 Limited	*(1)*	1,006,250,000(L)	61.31%
IQ EQ (NTC) Trustees Asia (Jersey) Limited	*(2)*	1,006,250,000(L)	61.31%
Credit Suisse Group AG		104,628,113(L)	6.38%
		68,130,735(S)	4.16%

L/S: Long position/short position

Notes:

(1) Each of Heren Far East #3 Limited and Heren Far East #4 Limited is interested in more than one-third of the issued share capital of Heren, and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

(2) IQ EQ (NTC) Trustees Asia (Jersey) Limited (formerly known as Nautilus Trustees Asia Limited) is the trustee of the respective trusts holding entire interest in each of Heren Far East #2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited (which together hold the entire issued share capital of Heren), and is deemed to be interested in the 1,006,250,000 shares of the Company for the purposes of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2019.

REPORT OF THE DIRECTORS

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Group is committed to complying with laws and regulations that govern our businesses. As a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange, the Company is governed by the Companies Law of the Cayman Islands, as well as the Listing Rules and the Securities and Futures Ordinance.

In addition, the Group operates its pharmaceutical business mainly through its subsidiaries in the PRC and accordingly, relevant laws and regulations in the PRC applicable for the research, development, manufacturing, sales and distribution of pharmaceutical products, including but not limited to the laws and regulations on quality, safety, production, environmental protection, intellectual property and labour, shall be complied with.

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

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 29 to 35 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

AUDITOR

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

On behalf of the Board

Tsoi Hoi Shan
Chairman and Executive Director

Hong Kong, 30 March 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2019, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 of the rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, except for certain deviations which are summarized below:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2019, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Independent non-executive directors, Prof. Song Ming and Ms. Fu Xiao Nan were unable to attend the annual general meeting of the Company held on 4 June 2019 due to other important engagements.

THE BOARD

The Board comprises six executive directors and three independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors & Senior Management" on pages 18 to 21. The Board has established four Board committees namely Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. The attendance rates of individual directors at board meetings, annual general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors						
Mr. Tsoi Hoi Shan	5/5	1/1	N/A	N/A	N/A	N/A
Mr. Leung Wing Hon	5/5	1/1	N/A	N/A	N/A	1/1
Ms. Choy Siu Chit	5/5	1/1	N/A	N/A	N/A	1/1
Mr. Fang Yu Ping	5/5	1/1	N/A	N/A	N/A	N/A
Ms. Zou Xian Hong	5/5	1/1	N/A	N/A	N/A	N/A
Ms. Zhu Su Yan	5/5	1/1	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Chong Peng Oon	5/5	1/1	2/2	1/1	1/1	1/1
Prof. Song Ming	4/5	0/1	2/2	1/1	1/1	1/1
Ms. Fu Xiao Nan	4/5	0/1	2/2	1/1	1/1	N/A

CORPORATE GOVERNANCE REPORT

The Board is responsible for setting the Group's objectives and strategies as well as to monitor the Group's performance. The Board also approves matters like annual and interim results, major transactions, appointment of directors, dividend and accounting policies and scrutinizes internal control procedures of the Group's operations. The Board has delegated the responsibility and authority of day-to-day operations to the management team.

All directors are provided with updated information in relation to governance and control matters regularly. The directors may seek independent professional advice according to prescribed procedures in order to assist them to discharge their duties at the expenses of the Company.

Four regular board meetings were held by the Board during the year. At least 14 days notices are given to all directors for all regular board meetings. Directors can include matters to be discussed in the agenda if necessary. Agenda of regular board meetings accompanied with board papers are dispatched to all directors within a reasonable time before the date of meeting. All draft minutes of the Board are circulated to all directors within a reasonable time for comments before being confirmed.

Minutes of the Board and Board committees are kept by the secretary duly appointed at such meetings. All directors are entitled to inspect the board papers and relevant information and access to sufficient information on a timely basis so as to enable the Board to make informed decisions on matters to be brought before meetings.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the CG Code, directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meeting.

During the year, the Company has arranged for all directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

CORPORATE GOVERNANCE REPORT

A record of training they received for the year ended 31 December 2019 was provided to the Company. The individual training record of each director for the year ended 31 December 2019 is set out below:

	Reading regulatory updates	Attending seminars/ workshops relevant to the business/directors' duties
Executive Directors		
Mr. Tsoi Hoi Shan	✓	✓
Mr. Leung Wing Hon	✓	✓
Ms. Choy Siu Chit	✓	✓
Mr. Fang Yu Ping	✓	✓
Ms. Zou Xian Hong	✓	✓
Ms. Zhu Su Yan	✓	✓
Independent Non-Executive Directors		
Mr. Chong Peng Oon	✓	✓
Prof. Song Ming	✓	✓
Ms. Fu Xiao Nan	✓	✓

CHAIRMAN

The information of Mr. Tsoi Hoi Shan, the Chairman is set out in the Biographical Details of Directors & Senior Management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has three independent non-executive directors. Among the three independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All the independent non-executive directors of the Company are appointed for a fixed term subject to retirement and re-appointment pursuant to the Company's articles of association.

Each of the independent non-executive directors has submitted a confirmation of his independence as required by Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors to be independent and that each of them satisfies the guidelines of independence set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the CG Code, but with a deviation from the code provision of the Remuneration Committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee held one meeting during the year. It undertook a review of the remuneration and benefits of the directors. The Remuneration Committee ensures that no director is involved in determining his/ her own emoluments.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the chairman of the Audit Committee.

The major duties of the Audit Committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The Audit Committee held two meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the Audit Committee are consistent with the relevant provisions set out in the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board has established a Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. Prof. Song Ming is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year to discuss re-election of directors. During selection and recommendation of candidates for directors, the Committee will consider about experience, qualification and suitability of the candidates. The Board will approve the appointments based on the same criteria. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

RISK MANAGEMENT COMMITTEE

The Company has established a Risk Management Committee in February 2016. The Risk Management Committee comprises two independent non-executive directors, namely Mr. Chong Peng Oon and Prof. Song Ming, and two executive directors, namely Mr. Leung Wing Hon and Ms. Choy Siu Chit. Mr. Chong Peng Oon is the chairman of the Risk Management Committee.

The major duties of the Risk Management Committee include overseeing and reviewing the Group's risk management and internal control systems. The Risk Management Committee held one meeting during the year to review the Group's risk management and internal control systems. The terms of reference of the Risk Management Committee are posted on the Company's website.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

To comply with code provision A.6.4 of the CG Code, the Company has adopted standard code for the code of conduct for relevant employees' securities transactions to regulate certain employees of the Group who are deemed to be in possession of unpublished price sensitive information of the Company when dealing in the securities of the Company.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2019, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

In the year under review, the Board considers the systems of internal control of the Company are sufficient and effective, hence the Company has complied with the code provisions relevant to the internal control in the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit services in 2019 amounted to approximately RMB4,865,000 and RMB1,860,000 respectively.

COMPANY SECRETARY

Mr. Leung Wing Hon is the company secretary of the Company. Mr. Leung reports to Mr. Tsoi Hoi Shan, the Chairman of the Board. Mr. Leung Wing Hon was appointed as company secretary of the Company on 25 May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of International Accountants. He undertook no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

Pursuant to article 58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Making Enquiry to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a range of communication channels between itself, its shareholders and investors, including answering questions through the annual general meeting, the publications of annual and interim reports, notices, announcements and circulars on the website of the Company at www.tul.com.cn and www.irasia.com/listco/hk/unitedlab. During the year, the Board is not aware of any significant changes in the Company's constitutional documents.

Led by Mr. Leung Wing Hon, the Company's vice-chairman, the Company is well positioned with an experienced investor relations team supporting the various investor relations initiatives. Ms. Karen Yang joined the team as the Investor Relations Officer in August 2014 and was promoted as Manager in April 2019. The new team will continue to work towards further enhancing the communication with investors through various platforms such as roadshows, meetings, plant visits, conference calls and other forms of engagement. In addition, the investor relations department will continue to implement various exercises towards building a targeted shareholders base that supports the investment proposition of the company to correctly reflect its valuation.

Effective investor relations communication is an integral part of the Company's management philosophy. In 2019, the Company will continue to maintain effective communication with investors. Through the investor relations department's efforts, the Company aspired to instill further confidence among investors and enhance their understanding of our business.

On behalf of the Board

Leung Wing Hon
Vice-Chairman and Executive Director

Hong Kong, 30 March 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED
聯邦制藥國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 159, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of embedded derivative components of convertible bonds	
We identified the valuation of the embedded derivative components of the convertible bonds issued by the Group as a key audit matter as the valuation model is sensitive to changes in certain key inputs including volatility of share prices and dividend yield that require significant management estimates. As at 31 December 2019, the carrying value of the embedded derivative components of the convertible bonds was approximately RMB297,471,000, with a loss on fair value change of approximately RMB110,117,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income. Details relating to the Group's embedded derivative components of the convertible bonds are set out in Note 32 to the consolidated financial statements.	Our audit procedures in relation to the valuation of the embedded derivative components of the convertible bonds included: • Reading the terms of the subscription agreements that constitute embedded derivatives and reviewing the accounting treatment to assess if there were any current year's changes that needed to be taken into account in our assessment of the valuation of the convertible bonds; • Evaluating an independent professional valuer's competence, capabilities and objectivity; • Involving our internal valuation specialists to review and assess whether the valuation model used by the independent professional valuer was appropriate and whether the key assumptions used in the valuation model including volatility of share prices and dividend yield were reasonable; and • Reviewing the presentation and disclosure of the convertible bond to comply with relevant HKFRSs.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Gladys Fung Suet Ngan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**8,392,600**	7,510,586
Cost of sales		**(4,771,336)**	(4,458,446)
Gross profit		**3,621,264**	3,052,140
Other income	6	**123,059**	118,925
Other gains and losses, net	7a	**(1,773)**	(121,133)
Selling and distribution expenses		**(1,477,637)**	(1,186,051)
Administrative expenses		**(740,653)**	(646,830)
Other expenses	7b	**(386,829)**	(309,922)
Impairment losses under expected credit loss model, net of reversal	9	**(7,655)**	2,106
Gain on disposal of a subsidiary	10	**200,445**	–
Loss on fair value change on investment properties	19	**(97,614)**	(94,873)
(Loss) gain on fair value change of embedded derivative components of convertible bonds	32	**(110,117)**	226,414
Finance costs	8	**(280,838)**	(246,897)
Profit before taxation		**841,652**	793,879
Tax expense	11	**(199,888)**	(110,951)
Profit for the year attributable to owners of the Company	12	**641,764**	682,928
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		**(1,971)**	615
Total comprehensive income for the year attributable to owners of the Company		**639,793**	683,543
Earnings per share (RMB cents)	16		
– Basic		**39.14**	41.80
– Diluted		**39.14**	32.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	*17*	**6,197,479**	6,494,202
Right-of-use assets	*18*	**232,637**	–
Properties held for development	*19a*	**–**	255,723
Investment properties	*19b*	**–**	698,424
Prepaid lease payments	*20*	**–**	223,186
Goodwill	*21*	**3,031**	3,031
Intangible assets	*22*	**137,177**	141,337
Deposit for acquisition of land use rights		**7,262**	7,262
Deposits for acquisition of property, plant and equipment		**56,427**	46,080
Other pledged deposits	*30 & 31*	**24,000**	20,028
Consideration receivables	*25*	**276,363**	–
Financial asset at fair value through profit or loss	*23*	**500**	500
Deferred tax assets	*33*	**51,289**	15,516
		6,986,165	7,905,289
Current assets			
Inventories	*24*	**1,575,235**	1,464,661
Trade and bills receivables, other receivables, deposits and prepayments	*25*	**3,241,069**	3,065,886
Prepaid lease payments	*20*	**–**	5,406
Other pledged deposits	*30 & 31*	**7,423**	26,709
Pledged bank deposits	*26*	**724,981**	555,806
Bank balances and cash	*26*	**3,164,819**	1,578,540
		8,713,527	6,697,008
Current liabilities			
Trade and bills payables, other payables and accrued charges	*27*	**3,656,456**	3,700,672
Contract liabilities	*28*	**59,733**	68,439
Obligations under finance leases – due within one year	*30*	**–**	108,572
Lease liabilities	*29*	**1,646**	–
Tax payables		**167,641**	84,338
Borrowings – due within one year	*31*	**2,573,398**	1,625,638
Bank overdraft	*26*	**–**	96,644
Convertible bonds	*32*	**–**	830,894
		6,458,874	6,515,197
Net current assets		**2,254,653**	181,811
Total assets less current liabilities		**9,240,818**	8,087,100

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

		31 December	
		2019	2018
	NOTES	**RMB'000**	RMB'000
Non-current liabilities			
Deferred tax liabilities	*33*	**77,803**	296,866
Deferred income in respect of government grants	*36*	**68,085**	77,453
Lease liabilities	*29*	**117**	–
Obligations under finance leases – due after one year	*30*	**–**	7,423
Borrowings – due after one year	*31*	**1,414,591**	1,583,316
Convertible bonds	*32*	**1,008,433**	–
		2,569,029	1,965,058
		6,671,789	6,122,042
Capital and reserves			
Share capital	*34*	**15,360**	15,346
Reserves		**6,656,429**	6,106,696
Equity attributable to owners of the Company		**6,671,789**	6,122,042

The consolidated financial statements on pages 41 to 159 were approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Revaluation reserve RMB'000	Foreign exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018	15,237	2,356,763	277,100	763,404	95,616	2,659	1,930,986	5,441,765
Changes in equity during the year:								
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	615	–	615
Profit for the year	–	–	–	–	–	–	682,928	682,928
Total comprehensive income for the year	–	–	–	–	–	615	682,928	683,543
Dividends recognised as distribution *(Note 15)*	–	–	–	–	–	–	(84,443)	(84,443)
Issue of shares upon conversion of convertible bonds *(Note 32)*	109	81,068	–	–	–	–	–	81,177
Appropriations	–	–	–	82,813	–	–	(82,813)	–
At 31 December 2018	15,346	2,437,831	277,100	846,217	95,616	3,274	2,446,658	6,122,042
Changes in equity during the year:								
Exchange differences arising on translation of a foreign operation	**–**	**–**	**–**	**–**	**–**	**(1,971)**	**–**	**(1,971)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**641,764**	**641,764**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**–**	**(1,971)**	**641,764**	**639,793**
Dividends recognised as distribution *(Note 15)*	**–**	**–**	**–**	**–**	**–**	**–**	**(98,383)**	**(98,383)**
Issue of shares upon conversion of convertible bonds *(Note 32)*	**14**	**8,323**	**–**	**–**	**–**	**–**	**–**	**8,337**
Transfer of revaluation reverse upon disposal of a subsidiary	**–**	**–**	**–**	**–**	**(95,616)**	**–**	**95,616**	**–**
Appropriations	**–**	**–**	**–**	**88,575**	**–**	**–**	**(88,575)**	**–**
At 31 December 2019	**15,360**	**2,446,154**	**277,100**	**934,792**	**–**	**1,303**	**2,997,080**	**6,671,789**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided for before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective subsidiaries.

Included in special reserve is an amount of RMB203,263,000 which represents the portion of registered capital of the two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of RMB73,837,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquisition of additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity. The revaluation reserve was transferred to retained profits upon disposal of a subsidiary during the year.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Operating activities		
Profit before taxation	**841,652**	793,879
Adjustments for:		
Write-down (reversal of write-down) of inventories, net	**8,825**	(7,797)
Reversal of write-down of deposits for property, plant and equipment	**(7,237)**	–
Impairment losses under credit loss model, net of reversal	**7,655**	(2,106)
Amortisation of intangible assets	**12,607**	12,284
Amortisation of prepaid lease payments	**–**	6,585
Depreciation of property, plant and equipment	**588,427**	728,755
Depreciation of right-of-use assets	**74,698**	–
Impairment losses on intangible assets	**–**	17,960
Loss on fair value change on investment properties, net of demolition costs	**69,052**	94,873
Finance costs	**280,838**	246,897
Release of government grants	**(13,479)**	(15,784)
Bank interest income	**(51,156)**	(22,636)
Net losses on disposal of property, plant and equipment	**14,411**	29,529
Gain on disposal of a subsidiary	**(200,445)**	–
Loss (gain) on fair value change of embedded derivative components of convertible bonds	**110,117**	(226,414)
Unrealised exchange loss	**56,172**	109,184
Operating cash flows before movements in working capital	**1,792,137**	1,765,209
Increase in inventories	**(119,399)**	(283,782)
Decrease (increase) in trade and bills receivables, other receivables, deposits and prepayments	**295,020**	(644,226)
Increase in trade and bills payables, other payables and accrued charges	**868**	585,561
Decrease in contract liabilities	**(8,706)**	(18,615)
Cash generated from operations	**1,959,920**	1,404,147
Income taxes paid	**(158,736)**	(190,908)
Net cash from operating activities	**1,801,184**	1,213,239

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Investing activities			
Prepaid lease payments made		–	(22,574)
Payments for purchase of property, plant and equipment		**(374,977)**	(477,570)
Payment for deposits of acquisition of property, plant and equipment		**(56,426)**	(34,051)
Payments for leasehold land		**(9,056)**	–
Proceeds on disposal of property, plant and equipment		**7,380**	31,971
Placement of pledged bank deposits		**(3,268,497)**	(1,586,327)
Withdrawal of pledged bank deposits		**3,099,195**	1,518,259
Placement of other pledged deposits		**(31,423)**	–
Withdrawal of other pledged deposits		**46,737**	51,709
Receipts of government grants		**11,111**	13,328
Interest received		**51,156**	22,636
Proceeds from disposal of a subsidiary	*10*	**100,000**	–
Additions to intangible assets		**(8,447)**	(20,784)
Net cash used in investing activities		**(433,247)**	(503,403)
Financing activities			
Interest paid		**(215,754)**	(203,573)
Dividend paid		**(98,383)**	(84,443)
Repayment of obligations under finance leases		–	(285,238)
Repayment of lease liabilities		**(114,991)**	–
New borrowings raised		**3,732,147**	955,697
Repayment of borrowings		**(2,985,288)**	(1,204,913)
Net cash from (used in) financing activities		**317,731**	(822,470)
Net increase (decrease) in cash and cash equivalents		**1,685,668**	(112,634)
Effect of foreign exchange rate changes		**(2,745)**	762
Cash and cash equivalents at beginning of the year		**1,481,896**	1,593,768
Cash and cash equivalents at end of the year		**3,164,819**	1,481,896
Represented by:			
Bank balances and cash		**3,164,819**	1,578,540
Bank overdraft		–	(96,644)
		3,164,819	1,481,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

The United Laboratories International Holdings Limited (the "Company") is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company is Heren Far East Limited, incorporated in the British Virgin Islands and is ultimately controlled by The Choy's Family Trust. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 46.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company and most of its subsidiaries (the "Group"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 *Leases*

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

Definition of a lease

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

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

As a lessee

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 *Leases (Continued)*

As a lessee (Continued)

For leases that were classified as finance leases applying HKAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the leased asset and lease liability immediately before that date measured applying HKAS 17. For those leases, the Group accounted for the right-of-use asset and the lease liability applying HKFRS 16 from the date of initial application.

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

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

ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 *Leases (Continued)*

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the Group is 6.25%.

	Note	**At 1 January 2019 RMB'000**
Operating lease commitments disclosed as at 31 December 2018		**476**
Lease liabilities discounted at relevant incremental borrowing rate		**400**
Add: Termination options reasonably certain not to be exercised		**2,910**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		**3,310**
Add: Obligations under finance leases recognised at 31 December 2018	*(b)*	**115,995**
Lease liabilities as at 1 January 2019		**119,305**
Analysed as		
Current		**110,119**
Non-current		**9,186**
		119,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 *Leases (Continued)*

As a lessee (Continued)

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

	Notes	**At 1 January 2019 RMB'000**
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		**3,310**
Reclassified from prepaid lease payments	*(a)*	**228,592**
Amounts included in property, plant and equipment under HKAS 17		
– Assets previously under finance leases	*(b)*	**275,701**
		507,603

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB5,406,000 and RMB223,186,000, respectively were reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, carrying amounts of the obligations under finance leases of RMB108,572,000 and RMB7,423,000 as current and non-current liabilities respectively and the related assets of RMB275,701,000 as at 31 December 2018 were reclassified to current and non-current lease liabilities as well as the right-of-use assets respectively as at 1 January 2019.

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and should be adjusted to reflect the discounting effect at transition. However, no adjustment is made as the directors of the Company consider that the discounting effect is not significant to the consolidated financial statements upon the application of HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 *Leases (Continued)*

Sales and leaseback transactions

The Group acts as a seller-lessee

In accordance with the transition provisions of HKFRS 16, sales and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the current year, the Group entered into sales and leaseback transactions in relation to certain plant and machinery and the transaction does not satisfy the requirements as a sales. Accordingly, the Group accounted for the transfer proceeds of RMB400,000,000 as borrowings within the scope of HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 *Leases (Continued)*

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

	Notes	**Carrying amounts previously reported at 31 December 2018** RMB'000	**Adjustments** RMB'000	**Carrying amounts under HKFRS 16 at 1 January 2019** RMB'000
Non-current assets				
Property, plant and equipment	*(b)*	6,494,202	(275,701)	6,218,501
Right-of-use assets	*(a) & (b)*	–	507,603	507,603
Prepaid lease payments	*(a)*	223,186	(223,186)	–
Current assets				
Prepaid lease payments	*(a)*	5,406	(5,406)	–
Current liabilities				
Lease liabilities	*(b)*	–	(110,119)	(110,119)
Obligation under finance lease	*(b)*	(108,572)	108,572	–
Non-current liabilities				
Lease liabilities	*(b)*	–	(9,186)	(9,186)
Obligation under finance lease	*(b)*	(7,423)	7,423	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to HKFRSs in issue but not yet effective

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

Amendments to HKAS 1 and HKAS *8 Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

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

The New Framework:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's interests in existing subsidiaries

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

Goodwill

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

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

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

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

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

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

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

Leases

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

Right-of-use assets

The cost of right-of-use asset includes the amount of the initial measurement of the lease liability and lease payment made at or before commencement date for land use rights.

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

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment properties as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties" and properties held for development.

Refundable rental deposits

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

Lease liabilities

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

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised by the Group.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Lease liabilities *(Continued)*

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

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Sale and leaseback transactions (upon application of HKFRS 16 since 1 January 2019)

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a seller-lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee accounts for the transfer proceeds as borrowings within the scope of HKFRS 9.

Sale and leaseback resulting in a finance lease (prior to 1 January 2019)

The accounting treatment of a sale and leaseback transaction depends on the type of lease involved. The leaseback may be a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the lessee, or it may be an operating lease (in which case, some significant risks and rewards of ownership have been transferred to the purchaser).

The Group as a seller-lessee

For sale and leaseback transactions which are in substance a financing arrangement, the Group accounts for the sales proceeds as obligation under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange reserve.

Borrowing costs

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

Effective from 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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

Current and deferred tax are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Property, plant and equipment

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

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

Ownership interests in leasehold land and building

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Ownership interests in leasehold land and building *(Continued)*

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

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

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Effective from 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure *(Continued)*

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

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

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

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

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

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

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Inventories

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

Properties held for development

Properties held for development are stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights or the fair value of investment properties upon the date of transfer and other directly attributable costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

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

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

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

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

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

(ii) Financial asset at FVTPL

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

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

Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk *(Continued)*

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(ii) Credit-impaired financial assets

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

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

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

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

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

(iii) Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(iv) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade receivables which are not credit-impaired, are assessed as a separate group, while bills receivables, other receivables, pledged bank deposits, other pledged deposits and bank balances are each assessed individually);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as financial liabilities or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible bonds contains liability component, conversion option and early redemption option derivative components

Convertible bonds issued by the Group that contain the liability, conversion option and early redemption option components (which are not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments and that gives the Company a choice over how it is settled is a conversion option derivative. Early redemption option that results in redemption other than by an amount which approximates the amortised cost of the liability on each exercise date is a redemption option derivative. At the date of issue, the liability, conversion option and early redemption option derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option derivatives in proportion to their relative fair values. Transaction costs relating to the conversion option and redemption option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

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

Disposal of entire equity interest in United Laboratories (Chengdu) Limited (the "Chengdu Company")

The entire equity interest in Chengdu Company was considered as fully disposed of although the Group retained 33% equity interest in Chengdu Company.

The directors of the Company assessed whether or not the Group has disposed of the entire interest in Chengdu Company based on whether the Group has any economic benefits and significant influence over Chengdu Company through 33% equity interest is still retained in Chengdu Company. In making the judgement, the directors of the Company considered the substance of the overall transaction, its economic benefits on 33% equity interest in Chengdu Company and its ability to involve in the financial and operating policy decision of Chengdu Company. After the assessment, the directors of the Company considered that the Group has disposed of the entire equity interest in Chengdu Company.

Details of the transaction are set out in Note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Critical judgments in applying accounting policies *(Continued)*

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

As a result, the Group recognised deferred taxes relating to Land Appreciation Tax ("LAT") and Enterprise Income Tax ("EIT") on changes in fair value of such investment properties as disclosed in Note 33.

Key sources of estimation uncertainty

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

Valuation of investment properties situated in the PRC

As described in Note 19, investment properties situated in the PRC are stated at fair value by reference to valuations performed by an independent professional valuer. The valuation model is sensitive to changes in certain key assumptions including expected selling prices, construction costs, construction period, finance costs and developers' profit, that require significant management judgement. Any changes in the market conditions will affect the fair value measurement of the investment properties of the Group.

Provision of ECL for trade receivables and other receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables are disclosed in Note 41 and Note 25, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Key sources of estimation uncertainty *(Continued)*

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to experience of the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimates due to changes in the commercial and technological environment, such differences will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. The carrying amount of property, plant and equipment is disclosed in Note 17.

Estimated impairment of property, plant and equipment, right-of-use assets and intangible assets

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

During the year ended 31 December 2019, no impairment loss has been recognised in respect of right-of-use assets, property, plant and equipment and intangible assets while an impairment loss of RMB17,960,000 was recognised in respect of intangible assets during the year ended 31 December 2018.

The carrying amount of right-of-use assets, property, plant and equipment, and intangible assets are set out in Notes 18, 17 and 22, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Key sources of estimation uncertainty *(Continued)*

Estimated write-down of inventories to net realisable value

The Group writes down inventories based on assessments of the net realisable value of existing inventories. Write-down to inventories is made where events or changes in circumstances indicate that the net realisable value of certain items are lower than the costs of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. During the year ended 31 December 2019, write-down of inventories of RMB8,825,000 (2018: reversal of write-down of inventories of RMB7,797,000) has been recognised. The carrying amount of inventories is disclosed in Note 24.

Valuation of the embedded derivatives in convertible bonds

The fair value for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the personnel that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. The valuation model is sensitive to changes in certain key inputs including volatility of share prices and dividend yield that require significant management estimates. Any changes in the estimates and assumptions will affect the fair values of the embedded derivatives in convertible bonds. The carrying amount of embedded derivatives is disclosed in Note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION

The Group is currently organised into three revenue streams, including Intermediate products; Bulk medicine; and Finished products.

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2019					
	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Total RMB'000	Elimination RMB'000	Consolidated RMB'000
Types of products						
6-APA	876,272	–	–	876,272	–	876,272
Antibiotics products	–	3,592,613	2,146,648	5,739,261	–	5,739,261
Insulin Products	–	–	858,700	858,700	–	858,700
Others	404,080	499	513,788	918,367	–	918,367
Revenue from contracts with customers	1,280,352	3,593,112	3,519,136	8,392,600	–	8,392,600
Inter-segment sales	1,516,838	533,695	–	2,050,533	(2,050,533)	–
Segment revenue	2,797,190	4,126,807	3,519,136	10,443,133	(2,050,533)	8,392,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(i) Disaggregation of revenue from contracts with customers *(Continued)*

	For the year ended 31 December 2018					
	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Total RMB'000	Elimination RMB'000	Consolidated RMB'000
Types of products						
6-APA	885,876	–	–	885,876	–	885,876
Antibiotics products	–	3,377,887	1,855,358	5,233,245	–	5,233,245
Insulin Products	–	–	658,937	658,937	–	658,937
Others	347,749	11,823	372,956	732,528	–	732,528
Revenue from contracts with customers	1,233,625	3,389,710	2,887,251	7,510,586	–	7,510,586
Inter-segment sales	1,617,804	423,009	–	2,040,813	(2,040,813)	–
Segment revenue	2,851,429	3,812,719	2,887,251	9,551,399	(2,040,813)	7,510,586

All of the Group's revenue is recognised at a point in time during the years ended 31 December 2019 and 2018.

(ii) Performance obligations for contracts with customers

The Group recognises revenue from the sale of pharmaceutical products, revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to and received by the customer.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Contracts for sale of pharmaceutical products are typically non-cancellable. The contracts for sales of products have expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. executive directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

The three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

(a) Segment revenue and results:

Year ended 31 December 2019

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,280,352	3,593,112	3,519,136	8,392,600	–	8,392,600
Inter-segment sales	1,516,838	533,695	–	2,050,533	(2,050,533)	–
Segment revenue	2,797,190	4,126,807	3,519,136	10,443,133	(2,050,533)	8,392,600
RESULT						
Segment profit	87,344	235,943	783,500			1,106,787
Unallocated other income						108,873
Unallocated corporate expenses						(98,522)
Other gains and losses, net						12,638
Loss on fair value change of embedded derivative components of convertible bonds						(110,117)
Gain on disposal of a subsidiary						200,445
Loss on fair value change on investment properties						(97,614)
Finance costs						(280,838)
Profit before taxation						841,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results: *(Continued)*

Year ended 31 December 2018

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,233,625	3,389,710	2,887,251	7,510,586	–	7,510,586
Inter-segment sales	1,617,804	423,009	–	2,040,813	(2,040,813)	–
Segment revenue	2,851,429	3,812,719	2,887,251	9,551,399	(2,040,813)	7,510,586
RESULT						
Segment profit	287,120	105,193	615,374			1,007,687
Unallocated other income						107,539
Unallocated corporate expenses						(84,858)
Other gains and losses, net						(121,133)
Gain on fair value change of embedded derivative components of convertible bonds						226,414
Loss on fair value change on investment properties						(94,873)
Finance costs						(246,897)
Profit before taxation						793,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results: *(Continued)*

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Performance is measured based on segment results that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

Other than the segment revenue and segment results analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment revenue is charged at prevailing market rates.

Reportable segment results represent the profit earned by each segment without allocation of certain other income, corporate expenses, other gains and losses, (loss) gain on fair value change of embedded derivative components of convertible bonds, gain on disposal of a subsidiary, loss on fair value change on investment properties and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information

Amounts included in the measurement of segment profit or loss:

For the year ended 31 December 2019

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Unallocated expenses RMB'000	Consolidated RMB'000
Amortisation of intangible assets	1,840	–	10,767	–	12,607
Depreciation of right-of-use assets	71,293	2,018	1,387	–	74,698
Depreciation of property, plant and equipment	444,576	84,404	51,752	7,695	588,427
Net losses on disposal of property, plant and equipment	13,560	802	49	–	14,411
Impairment losses under expected credit loss model, net of reversal	(1,376)	737	2,990	(10,006)	(7,655)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information *(Continued)*

For the year ended 31 December 2018

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Unallocated expenses RMB'000	Consolidated RMB'000
Amortisation of prepaid lease payments	4,264	1,047	1,274	–	6,585
Amortisation of intangible assets	1,840	–	10,444	–	12,284
Depreciation of property, plant and equipment	578,753	97,889	48,212	3,901	728,755
Impairment losses recognised on intangible assets	–	–	–	17,960	17,960
Net loss on disposal of property, plant and equipment	–	–	–	29,529	29,529
Impairment losses under expected credit loss model, net of reversal	(1,036)	(2,846)	(2,424)	8,412	2,106

(c) Geographical information

The revenue by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Revenue from external customers	
	2019	2018
	RMB'000	RMB'000
PRC (country of domicile)	**5,957,571**	5,541,842
Europe	**642,620**	570,821
India	**833,723**	532,060
Hong Kong	**87,943**	33,601
Middle East	**44,353**	48,234
South America	**234,337**	151,704
Other Asian regions	**366,692**	421,675
Other regions	**225,361**	210,649
	8,392,600	7,510,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information *(Continued)*

The information about its non-current assets is presented based on the geographical location of the assets, as below:

	Non-current assets	
	2019	2018
	RMB'000	RMB'000
PRC (country of domicile)	**6,548,430**	7,782,315
Hong Kong	**85,583**	86,930
	6,634,013	7,869,245

Non-current assets excluded other pledged deposits, consideration receivables, financial asset at FVTPL and deferred tax assets.

(d) Information about major customers

There is no customer who contributes more than 10% of the total sales of the Group.

6. OTHER INCOME

	2019	2018
	RMB'000	RMB'000
Bank interest income	**51,156**	22,636
Sales of scrap materials	**11,886**	7,282
Subsidy income *(Note 36)*	**40,041**	69,556
Sundry income	**19,976**	19,451
	123,059	118,925

Note: Subsidy income includes government grants from the PRC government which are specifically for (i) capital expenditure incurred for plant and machinery, which are recognised as income over the useful life of related assets; (ii) incentives and other subsidies for research and development activities, which are recognised upon meeting the specific conditions; and (iii) incentives which have no specific conditions attached to the grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. OTHER GAINS AND LOSSES/OTHER EXPENSES

	2019	2018
	RMB'000	RMB'000
(a) Other gains and losses, net		
Impairment losses recognised on intangible assets	–	17,960
Loss on derivative financial instruments *(Note)*	**1,640**	3,813
Reversal of write-down of deposits for property, plant and equipment	**(7,237)**	–
Net losses on disposal of property, plant and equipment	**14,411**	29,529
Net foreign exchange (gain) loss	**(7,079)**	70,005
Others	**38**	(174)
	1,773	121,133
(b) Other expenses		
Research and development costs	**367,968**	283,224
Temporary production suspension costs	**6,478**	11,263
Tax penalty	**4,312**	7,700
Others	**8,071**	7,735
	386,829	309,922

Note: During the years ended 31 December 2019 and 2018, the Group had entered into several foreign currency forward contracts with banks and financial institutions to reduce its exposure to foreign currency risks. These derivatives were not accounted for under hedge accounting. There were no outstanding foreign currency forward contracts held by the Group as at 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on borrowings	**185,240**	160,480
Interest on convertible bonds *(Note 32)*	**97,356**	88,648
Interest on finance leases	**–**	19,748
Interest on lease liabilities	**2,551**	–
	285,147	268,876
Less: amounts capitalised in property, plant and equipment	**(4,309)**	(21,979)
	280,838	246,897

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.47% (2018: 6.81%) per annum to expenditure on qualifying assets.

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019 RMB'000	2018 RMB'000
Impairment losses (recognised) reversed:		
– trade receivables	**2,351**	(6,306)
– other receivables	**(10,006)**	8,412
	(7,655)	2,106

Details of impairment assessment for the years ended 31 December 2019 and 2018 are set out in Note 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. DISPOSAL OF A SUBSIDIARY

On 7 August 2019, The United Laboratories Limited, a wholly-owned subsidiary of the Company, and Evergrande Real Estate Group (Chengdu) Limited ("Evergrande Chengdu"), an independent third party, entered into an investment and cooperation agreement (the "Agreement").

Pursuant to the terms of the Agreement, (1) Evergrande Chengdu has agreed to subscribe for 67% equity interest of United Laboratories (Chengdu) Limited ("Chengdu Company") (the "Share Subscription"), an indirect wholly-owned subsidiary of the Company by way of a capital injection for a consideration of approximately RMB812,121,000 (the "Consideration for 67% Equity Interest"), and (2) the Group has agreed to transfer the remaining 33% equity interest of Chengdu Company to Evergrande Chengdu for a consideration of approximately RMB217,879,000 (the "Consideration for 33% Equity Interest") (in which RMB50,000,000 will be deducted if the necessary consents and approvals for the adjustments of plot ratio of the land (the "Land") stipulated in the Agreement cannot be obtained from the government within the specific period) after the fifth installment of the total consideration (the "Transaction"). The total consideration of the Transaction is approximately RMB1,030,000,000 and will be settled in seven installments within 27 months from the date of disposal.

The seventh instalments of RMB171,500,000 shall be settled by way of receiving certain commercial properties developed on the Land from Evergrande Chengdu. If transfer of such properties cannot be effected within the specified period, such amount shall be settled in cash.

Subsequent to the date of the Agreement, the Group has been informed by the government that the adjustments of plot ratio of the Land stipulated in the Agreement were not approved, and therefore, the Consideration for 33% equity interest of Chengdu Company has been adjusted from RMB217,879,000 to RMB167,879,000. The total consideration of the Transaction is therefore adjusted to RMB980,000,000 which will be settled in seven installments within 27 months from the date of disposal of which RMB343,000,000 will be settled after 12 months from the end of the reporting period.

During the year, the registered share capital of Chengdu Company has been increased from RMB400,000,000 to RMB1,212,121,000 upon the Share Subscription and 67% of equity interest of Chengdu Company has been legally transferred to Evergrande Chengdu.

The board of directors of Chengdu Company after the Share Subscription consists of three directors, of which one is appointed by the Group and the rest of the directors are appointed by Evergrande Chengdu. Pursuant to the terms of the Agreement, the fiduciary duty of the director of Chengdu Company representing the Group (the "CD Director") is only limited to monitor the settlement of the Consideration for 67% Equity Interest upon capital injection from Evergrande Chengdu to Chengdu Company and the CD Director is not allowed to participate in financial and operating policy decision of Chengdu Company. In addition, the Group is not entitled to share any profit or loss recognised by Chengdu Company and net assets of Chengdu Company after the Share Subscription.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. DISPOSAL OF A SUBSIDIARY *(Continued)*

Given that neither the Group has economic benefit over Chengdu Company nor has any right to participate in the financial and operating policy decision of Chengdu Company, the directors of the Company consider that the Group has lost the control in respect of Chengdu Company and has no significant influence over Chengdu Company for its remaining 33% equity interest and the Transaction is considered as a disposal of the 100% equity interest of Chengdu Company to Evergrande Chengdu on 6 November 2019 (i.e. the date of the Share Subscription) although the Group legally held 33% equity interest of Chengdu Company as at 31 December 2019.

During the year ended 31 December 2019, the first instalment of RMB100,000,000 has been received by the Group in December 2019 and the carrying amount of the consideration receivables is RMB773,693,000 (consideration amount of RMB880,000,000) as at 31 December 2019. Consideration of RMB100,000,000 has been received in accordance with the payment schedule subsequent to the 31 December 2019.

	6 November 2019	
	Undiscounted amount RMB'000	Carrying amount RMB'000
Consideration receivables:		
Cash consideration receivables within 12 months	637,000	597,330
Cash consideration receivables after 12 months	343,000	276,363
Total cash consideration receivables (Note)	980,000	873,693

Note: The consideration receivables are measured at fair value at the date of disposal and carried at amortized cost, based on the present value of the estimated future cashflow discounted using the effective interest rate of 12% per annum and the adjusted consideration receivable is RMB873,693,000. The effective interest rate of approximately 12% was determined by the directors of the Company by reference to a valuation performed by WeValue Advisory Limited ("WeValue"). Wevalue is an independent qualified professional valuer which is not connected with the Group.

In determining the discount rate of the deferred considerations, the management of the Group has worked closely with WeValue to perform the valuation and establish the appropriate valuation techniques and inputs to the model in deriving an appropriate discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. DISPOSAL OF A SUBSIDIARY *(Continued)*

	At 6 November 2019 RMB'000
Analysis of assets and liabilities of which control was lost:	
Properties held for development *(Note 19a)*	255,723
Investment properties *(Note 19b)*	629,372
Deferred tax liabilities *(Note 33)*	(212,685)
Net assets disposed of	672,410
Gain on disposal of a subsidiary:	
Consideration receivables	873,693
Net assets disposed of	(672,410)
Other tax arising from the disposal	(312)
Transaction costs arising from the disposal	(526)
Gain on disposal	200,445
Cash inflow arising on disposal:	
Consideration received during the year	100,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. TAX EXPENSE

	2019 RMB'000	2018 RMB'000
The tax charge (credit) comprises:		
Current tax		
PRC EIT	**209,209**	130,601
PRC withholding tax on distributed profits of PRC subsidiaries	**32,500**	47,500
	241,709	178,101
Underprovision in prior year		
Hong Kong Profits tax	**(3,067)**	–
PRC EIT	**3,397**	–
	330	–
Deferred tax credit *(Note 33)*	**(42,151)**	(67,150)
	199,888	110,951

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%, which only one entity nominated by a group of "connected" entities will be entitled to select the lower tax rate. The profits of Group entities not entilted qualified for the two-tiered profit tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime are applicable to the Hong Kong subsidiaries for its annual reporting periods beginning on or after 1 January 2018. No Hong Kong Profits Tax has been recognised as its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

PRC EIT is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. TAX EXPENSE *(Continued)*

Pursuant to the PRC EIT law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007, respectively, the tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC EIT law), the subsidiaries are entitled to a reduced rate of 15% and such qualification is subject to renewal for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2019 and 2018.

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by a PRC entity to a non-PRC tax resident shall be subject to the PRC EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. The withholding tax rate applicable to the Group is 5%. As at 31 December 2019 and 31 December 2018, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 **RMB'000**	2018 RMB'000
Profit before taxation	**841,652**	793,879
Tax at the PRC EIT rate of 25% (2018: 25%)	**210,413**	198,470
Tax effect of expenses not deductible for tax purpose	**93,654**	59,205
Tax effect of income not taxable for tax purpose	**(13,229)**	(60,414)
Additional tax arising from disposal of a subsidiary	**7,889**	–
Tax effect of super deduction of research and development expenses (Note)	**(64,380)**	(28,014)
Underprovision in prior year	**330**	–
Tax effect of LAT and other associated tax arising on fair value change of investment properties	**(20,858)**	(28,549)
Tax effect of tax losses not recognised	**27,814**	35,200
Utilisation of tax losses previously not recognised	**(2,426)**	(49,572)
PRC withholding tax on distributable profits of the PRC subsidiaries	**40,847**	32,108
Effect of tax concessionary rates granted to the PRC subsidiaries	**(85,044)**	(57,530)
Others	**4,878**	10,047
Income tax expense for the year	**199,888**	110,951

Note: Pursuant to Caishui [2018] circular No. 99, the Group is able to enjoy super deduction of 175% on qualifying research and development expenditures for the years ended 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	4,865	4,575
Depreciation		
Depreciation of right-of-use assets	74,698	–
Depreciation of property, plant and equipment	588,427	728,755
Less: amount included in research and development expenditures	(33,470)	(30,125)
Less: amount included in temporary production suspension costs in other expenses	(1,476)	(2,866)
	628,179	695,764
Amortisation		
– intangible assets (included in cost of sales)	12,607	12,284
– prepaid lease payments	–	6,585
	12,607	18,869
Minimum lease payments in respect of rented premises	–	429
Staff costs, including directors' emoluments		
Salaries and other benefits costs	1,069,640	956,203
Retirement benefit costs	119,944	99,957
	1,189,584	1,056,160
Less: amount included in research and development expenditures	(93,362)	(54,733)
Less: amount included in temporary production suspension costs in other expenses	(586)	(1,327)
	1,095,636	1,000,100
Write-down (reversal of write-down) of inventories, net (included in cost of sales)	8,825	(7,797)
Cost of inventories recognised as expenses	4,771,336	4,458,446

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

2019

(a) Executive directors

	Tsoi Hoi Shan RMB'000	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	3,257	3,155	3,053	1,527	1,527	1,527	14,046
Bonus	–	–	–	720	720	720	2,160
Contributions to retirement benefit schemes	15	15	15	34	29	34	142
Sub-total	3,272	3,170	3,068	2,281	2,276	2,281	16,348

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Song Ming RMB'000	Fu Xiao Nan RMB'000	Total RMB'000
Fees	204	204	204	612

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	16,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

2018

(a) Executive directors

	Tsoi Hoi Shan RMB'000	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	3,257	3,155	3,053	1,527	1,527	1,527	14,046
Bonus	–	–	–	720	720	720	2,160
Contributions to retirement benefit schemes	15	15	15	34	14	34	127
Sub-total	3,272	3,170	3,068	2,281	2,261	2,281	16,333

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Huang Bao Guang RMB'000 *Note*	Song Ming RMB'000	Fu Xiao Nan RMB'000	Total RMB'000
Fees	204	90	204	204	702

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	17,035

Note: Huang Bao Guang retired as an independent non-executive director on 8 June 2018.

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. FIVE HIGHEST PAID EMPLOYEES

For the years ended 31 December 2019 and 2018, all the five highest paid individuals of the Group are directors of the Company, details of which are included in Note 13.

15. DIVIDENDS

	2019	2018
	RMB'000	RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year 2018 final dividend RMB6 cents (2018: 2017 final dividend of RMB5 cents) per share	**98,383**	84,443

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of RMB7 cents (2018: RMB6 cents) per ordinary share, in an aggregate amount of RMB115,151,000 (2018: RMB98,383,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

16. EARNINGS PER SHARE

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

Earnings

	2019	2018
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share being profit for the year attributable to owners of the Company	**641,764**	682,928
Effect of dilutive potential ordinary shares:		
Effect on convertible bonds	**–**	(91,031)
Earnings for the purposes of diluted earnings per share being profit for the year attributable to owners of the Company	**641,764**	591,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. EARNINGS PER SHARE *(Continued)*

Number of shares

	2019	2018
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,639,725**	1,633,778
Effect of dilutive potential ordinary shares:		
Effect on convertible bonds	**–**	200,570
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,639,725**	1,834,348

The computation of diluted earnings per share for the year ended 31 December 2019 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2018	4,331,423	7,629,415	129,796	48,340	100,350	12,239,324
Additions	132,307	71,897	5,312	4,420	239,033	452,969
Disposals/write off	(74,767)	(69,449)	(11,149)	(8,526)	–	(163,891)
Reclassification	94,273	216,208	4,149	–	(314,630)	–
At 31 December 2018	4,483,236	7,848,071	128,108	44,234	24,753	12,528,402
Adjustments upon application of HKFRS16	–	(775,694)	–	–	–	(775,694)
At 1 January 2019 (restated)	**4,483,236**	**7,072,377**	**128,108**	**44,234**	**24,753**	**11,752,708**
Additions	**36,535**	**49,027**	**3,810**	**3,320**	**287,180**	**379,872**
Transfer from right-of-use assets	**–**	**775,694**	**–**	**–**	**–**	**775,694**
Disposals/write-off *(Note)*	**(303,457)**	**(836,637)**	**(46,230)**	**(5,978)**	**–**	**(1,192,302)**
Reclassification	**30,707**	**177,378**	**2,182**	**–**	**(210,267)**	**–**
At 31 December 2019	**4,247,021**	**7,237,839**	**87,870**	**41,576**	**101,666**	**11,715,972**
DEPRECIATION						
At 1 January 2018	928,850	3,807,995	106,767	47,377	–	4,890,989
Charge for the year	159,316	554,988	11,581	2,870	–	728,755
Eliminated on disposals/write-off	(38,439)	(41,603)	(8,951)	(6,962)	–	(95,955)
At 31 December 2018	1,049,727	4,321,380	109,397	43,285	–	5,523,789
Adjustments upon application of HKFRS16	–	(499,993)	–	–	–	(499,993)
At 1 January 2019 (restated)	**1,049,727**	**3,821,387**	**109,397**	**43,285**	**–**	**5,023,796**
Charge for the year	**141,222**	**436,081**	**8,917**	**2,207**	**–**	**588,427**
Transfer from right-of-use assets	**–**	**566,370**	**–**	**–**	**–**	**566,370**
Eliminated on disposals/write-off *(Note)*	**(78,582)**	**(531,666)**	**(45,386)**	**(4,466)**	**–**	**(660,100)**
At 31 December 2019	**1,112,367**	**4,292,172**	**72,928**	**41,026**	**–**	**5,518,493**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
IMPAIRMENT						
At 1 January 2018	**222,271**	**293,978**	**–**	**598**	**–**	**516,847**
Eliminated on disposals/write-off	**–**	**(6,436)**	**–**	**–**	**–**	**(6,436)**
At 31 December 2018	**222,271**	**287,542**	**–**	**598**	**–**	**510,411**
Eliminated on disposals/ write-off *(Note)*	**(222,271)**	**(287,542)**	**–**	**(598)**	**–**	**(510,411)**
At 31 December 2019	**–**	**–**	**–**	**–**	**–**	**–**
CARRYING AMOUNTS						
At 31 December 2019	**3,134,654**	**2,945,667**	**14,942**	**550**	**101,666**	**6,197,479**
At 31 December 2018	3,211,238	3,239,149	18,711	351	24,753	6,494,202

Note: The amount includes write-off of property, plant and equipment with a cost of approximately RMB1,128,533,000 prior to disposal of the subsidiary as set out in Note 10. The relevant depreciation of RMB619,842,000 and impairment of RMB508,691,000 have been eliminated upon the write-off.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the lease term
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 25%
Motor vehicles	20% – 25%

The carrying amount of land and buildings shown above comprises properties situated on:

	2019	2018
	RMB'000	RMB'000
Leasehold land and buildings in Hong Kong	**70,458**	73,074
Buildings in the PRC	**3,064,196**	3,138,164
	3,134,654	3,211,238

Note: At 31 December 2019, the Group was in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of RMB645,752,000 (2018: RMB1,649,724,000).

At 31 December 2018, the carrying value of plant and machinery of RMB3,239,149,000 included an amount of RMB275,701,000 in respect of assets held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Buildings RMB'000	Motor Vehicles RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2019					
Carrying amount	228,592	637	2,673	275,701	507,603
As at 31 December 2019					
Carrying amount	230,928	373	1,336	–	232,637
For the year ended 31 December 2019					
Depreciation charge	6,720	264	1,337	66,377	74,698
	6,720	264	1,337	66,377	74,698
Additions to right-of-use assets	9,056	–	–	–	9,056
Transfer to property, plant and equipment	–	–	–	(209,324)	(209,324)
Total cash outflow for leases	9,056	–	–	–	9,056

For both years, the Group leases staff quarter and vehicles for its operations. Lease contracts are entered into for fixed term of 2 years to 3 years. Certain leases of equipment were accounted for as finance leases during the year ended 31 December 2019 and carried interest ranged from 1.16% to 4.05%.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

Sale and leaseback transactions – seller-lessee

To better manage the Group's capital structure and financing needs, the Group sometimes enters into sale and leaseback arrangements in relation to machinery leases. These legal transfer does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of the machinery. During the year ended 31 December 2019, the Group has raised RMB400,000,000 borrowings in respect of such sale and leaseback arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT

a) Properties held for development

During the year ended 31 December 2014, the Group made a full land premium payment of RMB484,050,000 to respective authority and obtained all land use right certificates, of a land located in Chengdu, Pengzhou ("Chengdu Lands"). The land use right certificate indicated that the period for which the lands could be used for commercial and residential purposes would expire on 27 December 2053 and 2083, respectively.

Pursuant to the Group's development plan of the Chengdu Lands as at 31 December 2014, certain lands will be developed into residential properties for sale. Accordingly, the amount of approximately RMB255,723,000 based on the proportion of lands to be developed as properties for sale had been reclassified from "Investment properties" to "Properties held for development" representing the deemed costs equivalent to the fair value measured at 31 December 2014 immediately prior to its reclassification.

During the year ended 31 December 2019, the entire properties held for development of RMB255,723,000 has been disposed of as a result of disposal of a subsidiary as set out in Note 10.

b) Investment properties

In 2014, the Group applied to local authority in Pengzhou for extension of the commencement date of property development which was approved by respective government authority in February 2015, with an extended period to no later than 31 December 2018 (the "Extension Document").

Pursuant to Article 26 of Chapter II of the Urban Real Estate Administration Law of the PRC (the "UREAL") and the Extension Document, when the development has not started in one year from the date required to start the development as prescribed by the Extension Document, an idle land fee not more than 20 percent of the lease fees for land use ("Idle Land Fee") may be imposed, i.e. if the real estate development work was not commenced on or before 31 December 2018. Furthermore, the land will be taken back by the government without compensation if the real estate development work is not commenced on or before 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

b) Investment properties *(Continued)*

In September 2017, the Group entered into an agreement with the local government of Pengzhou to facilitate the development of the Chengdu Lands for five years (the "Cooperative Agreement"). Pursuant to the Cooperative Agreement, the Group will contribute approximately 40 acre of the lands and existing structures erected on the lands (including office buildings and 102 workshops) to Pengzhou local government, whilst the Pengzhou local government will fund the construction of an administrative centre which is regarded as the first phase development of the Chengdu Lands (the "First Phase Development"). The Group will also be responsible to construct the administrative centre. Such administrative centre will be entirely owned by Pengzhou local government after five years from September 2017. To compensate the 40 acre lands contributed by the Group, the local government of Pengzhou has agreed to adjust the plot ratio of the remaining area of the lands to the original gross floor area. Meanwhile, a supplementary agreement has been entered into between the Pengzhou local government and the Group on 26 March 2018 (the "Supplementary Agreement") that the First Phase Development would commence upon the submission of the construction plan and the related documents. Also, the construction should be completed within 1 year from the date of signing the Supplementary Agreement i.e. 25 March 2019.

In December 2018, the Group has obtained the building permit from the relevant local authority in Pengzhou. Due to unforeseen reasons, the Group has not commenced the construction of the administrative centre in 2018. Based on the meeting minutes between the Group and the local government of Pengzhou on 8 March 2018, the Group is relieved from the responsibility for the delay of completion of the administrative centre. It is further agreed that the construction of the administrative centre should be completed within 1 year after the construction permit has been obtained.

The directors of the Company have obtained a legal opinion in respect of the Cooperative Agreement, the Supplementary Agreement and the meeting minutes between the Group and the local government of Pengzhou on 8 March 2019. As advised by the legal counsel of the Group, there will be no Idle Land Fee imposed to the Group though the First Phase Development did not commence in 2019 and the land will not be taken back by the government without compensation.

In May 2019, the Group has obtained the approval of the plan of the First Phase Development prior to the disposal.

During the year ended 31 December 2019, the Group has incurred some demolition costs of approximately RMB28,562,000. The entire investment properties with carrying amount of RMB629,372,000 after taking into consideration of the fair value change of the investment properties of approximately RMB97,614,000, have been disposed of through the disposal of a subsidiary as set out in Note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

c) Fair value measurement of investment properties

As set out in Note 10, the Group disposed of the investment properties on 6 November 2019, the investment properties were measured at fair value on 6 November 2019 with a fair value loss determined by the directors of the Company by reference to a valuation performed by Ravia Global Appraisal Advisory Limited ("Ravia") of approximately RMB97,614,000 (for the year ended 2018: RMB94,873,000). Ravia, a member of the Hong Kong Institute of Surveyors, is an independent qualified professional valuer which is not connected with the Group and has appropriate qualifications. The carrying amounts of investment properties represent land held for development for investment purposes.

In determining the fair value of the investment properties, the management of the Group determines the appropriate valuation techniques and inputs for fair value measurements. The Group engages and works closely with Ravia to perform the valuation and establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company on a regular basis to explain the cause of fluctuations in the fair value of the investment properties.

There was no comparable recent sale transaction of land with similar size available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the estimated development costs to be incurred to arrive at the residual value.

The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance costs, construction cost and developer's profit margin, which would expose the Group to fair value measurement risks.

Prior to the date of disposal, the management revisited average construction cost and average selling price of the investment properties and adjusted the inputs to the model after considering an increase in average construction cost and a decrease in average selling price with reference to the prevailing market conditions, resulting in a decrease of RMB97,614,000(2018: RMB94,873,000) in fair value of the investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

c) Fair value measurement of investment properties *(Continued)*

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Leasehold land in Chengdu, the PRC	Level 3	Residual Method	Expected selling price of completed units: at an average of RMB9,933 per square meter (31 December 2018: RMB10,042 per square meter)	– A slight increase in the expected selling price of properties in similar locality would result in a significant increase in fair value, and vice versa.
			– Average construction period: 3 – 7 years (31 December 2018: 3 – 7 years)	– An increase in the construction period would result in a decrease in the fair value, and vice versa.
			– Finance costs: 4.75 – 4.90% per annum (31 December 2018: 4.75 – 4.90% per annum)	– An increase in the finance costs would result in a decrease in the fair value, and vice versa.
			– Average construction cost: RMB6,900 per square meter (31 December 2018: RMB5,900 per square meter)	– An increase in the average construction costs would result in a decrease in the fair value, and vice versa.
			– Developer's profit margin: 40% (31 December 2018: 40%)	– An increase in the developer's profit margin would result in a decrease in the fair value, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. PREPAID LEASE PAYMENTS

	2019 **RMB'000**	2018 RMB'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC	–	228,592
Analysed for reporting purposes as:		
Non-current asset	–	223,186
Current asset	–	5,406
	–	228,592

21. GOODWILL

	RMB'000
COST	
At 1 January 2018, 31 December 2018 and 31 December 2019	**3,031**

Goodwill has been allocated to two individual cash-generating units (CGUs), including one subsidiary which operates in the bulk medicine segment and one subsidiary which operates in the finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2019 **RMB'000**	2018 RMB'000
Bulk medicine	**774**	774
Finished products	**2,257**	2,257
	3,031	3,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. INTANGIBLE ASSETS

	Development cost RMB'000 *(Note i & iii)*	Know-how RMB'000 *(Note ii)*	Total RMB'000
COST			
At 1 January 2018	144,771	47,100	191,871
Additions	20,784	–	20,784
At 31 December 2018	165,555	47,100	212,655
Additions	8,447	–	8,447
At 31 December 2019 *(Note)*	**174,002**	**47,100**	**221,102**
AMORTISATION			
At 1 January 2018	28,832	12,242	41,074
Charge for the year	9,370	2,914	12,284
At 31 December 2018	38,202	15,156	53,358
Charge for the year	9,693	2,914	12,607
At 31 December 2019	**47,895**	**18,070**	**65,965**
IMPAIRMENT			
At 1 January 2018	–	–	–
Provided for the year	–	17,960	17,960
At 31 December 2018	–	17,960	17,960
Provided for the year	–	–	–
At 31 December 2019	**–**	**17,960**	**17,960**
CARRYING AMOUNTS			
At 31 December 2019	**126,107**	**11,070**	**137,177**
At 31 December 2018	127,353	13,984	141,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. INTANGIBLE ASSETS *(Continued)*

Note: As at 31 December 2019, cost of intangible assets comprise of:

i. An amount of RMB20,237,000 (2018: RMB20,237,000), representing development costs incurred in obtaining licences for manufacturing finished products granted by the relevant PRC authorities. The licenses granted allow the Group to apply for the relevant technical know-how to manufacture finished products for five years from the date of granting relevant licenses. The costs of these intangible assets are therefore amortised over the useful lives of five years and were fully amortised in prior years.

ii. An amount of RMB47,100,000 (2018: RMB47,100,000), representing externally acquired technical know-how ("Know-how") in identifying processes for manufacturing finished products and protocols for fermentation/purification methodology. During the year ended 31 December 2015, two of the Know-how at a total cost of RMB29,140,000 had commenced amortisation starting from the date when they were put into production process. It is amortised over 10 years which is the expected period for which they will bring future economic benefits to the Group. Due to suspension of a product development, a full impairment loss of RMB17,960,000 has been recognised on one of the know-how of the relevant product development during the year ended 31 December 2018.

iii. A total amount of RMB153,765,000 (2018: RMB145,318,000), representing the capitalised development costs incurred in clinical trial process stage and in obtaining licenses for manufacturing finished products including insulin glargine and insulin. During the year ended 31 December 2018, the development cost of Clavulanate Potassium of RMB9,200,000 has started to amortise from the date when it was put into production process. It is amortised over 5 years which is the expected period for which it will bring future economic benefits to the Group. During the year ended 31 December 2019, the development cost of 6-Aminopenicillanic Acid of RMB2,417,000 has started to amortise from the date when it was put into production process. It is amortised over 10 years which is the expected period for which it will bring future economic benefits to the Group. The capitalised development cost of insulin glargine of RMB69,408,000, has started to amortise from the date when it was put into production process since the year ended 31 December 2017. It is amortised over 10 years which is the expected period for which it will bring future economic benefits to the Group. There has been no amortisation for the remaining development cost of another insulin as the related products are in clinical trial process stage. In accordance with HKAS 36 Impairment of Assets, the Group performed its annual impairment test for intangible asset not yet available to use by comparing its carrying amount with its recoverable amount. The calculation applied discounted cash flow methodology, of which the cash flow projections are based on financial budget endorsed by management. The management of the Group determined no impairment loss is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Equity securities of unlisted investments, classified as non-current assets	**500**	500

The above unlisted equity investments represent the Group's equity interest in a private entity established in the PRC, which are measured at FVTPL at the end of both reporting period.

24. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**514,016**	496,984
Work in progress	**205,897**	163,258
Finished goods	**855,322**	804,419
	1,575,235	1,464,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019	2018
	RMB'000	RMB'000
Trade receivables	**1,241,536**	1,134,749
Bills receivables	**1,354,984**	1,854,888
Consideration receivables *(Note 10)*	**773,693**	–
Value added tax receivables	**59,045**	27,141
Other receivables, deposits and prepayments	**127,758**	81,037
Less: allowances for credit losses		
– trade	**(23,167)**	(25,518)
– non-trade	**(16,417)**	(6,411)
	3,517,432	3,065,886
Less: Amount due within one year	**(3,241,069)**	(3,065,886)
Amount due after one year	**276,363**	–

As at 1 January 2018, carrying amount of trade receivables from contracts with customers amounted to RMB1,066,835,000.

The Group normally allows a credit period of 60 days on average (2018: 60 days on average) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on dates of goods receipt, which is the same as revenue recognition date, and an analysis of bills receivables by age, net of allowance for credit losses, presented based on the bills issuance date, at the end of the reporting period:

	2019	2018
	RMB'000	RMB'000
Trade receivables		
0 to 30 days	**697,533**	392,207
31 to 60 days	**306,184**	460,665
61 to 90 days	**127,859**	176,782
91 to 120 days	**67,030**	46,778
121 to 180 days	**19,763**	32,799
	1,218,369	1,109,231
Bills receivables		
0 to 30 days	**345,572**	427,028
31 to 60 days	**188,439**	316,823
61 to 90 days	**216,072**	325,024
91 to 120 days	**209,528**	302,806
121 to 180 days	**363,268**	460,105
Over 180 days	**32,105**	23,102
	1,354,984	1,854,888

As at 31 December 2019, total bills received amounting to RMB1,354,984,000 (2018: RMB1,854,888,000) and certain bills were further discounted or endorsed by the Group with full recourse. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed below. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB214,652,000 (2018: RMB256,359,000) which are past due as at the reporting date. Out of the past due balances, nil (2018: RMB7,845,000) has been past due 90 days or more and is not considered in defaults as the balances were related to customers with sound repayment history and no recent history of default. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables as at 31 December 2019 and 2018 are set out in Note 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Transfer of financial assets

The following were the Group's financial assets as at 31 December 2019 and 2018 that were transferred to banks or suppliers by discounting or endorsing those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as a secured borrowing (see Note 31) for discounted bills receivables or it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade and other payables (see Note 27) for endorsed bills receivables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2019

	Bills receivables discounted to banks with full recourse RMB'000	**Bills receivables endorsed to suppliers with full recourse RMB'000**	**Total RMB'000**
Carrying amount of transferred assets	**61,793**	**222,698**	**284,491**
Carrying amount of associated liabilities	**(61,793)**	**(222,698)**	**(284,491)**

As at 31 December 2018

	Bills receivables discounted to banks with full recourse RMB'000	Bills receivables endorsed to suppliers with full recourse RMB'000	Total RMB'000
Carrying amount of transferred assets	373,657	522,566	896,223
Carrying amount of associated liabilities	(373,657)	(522,566)	(896,223)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH/BANK OVERDRAFT

Pledged deposits amounting to RMB724,981,000 (2018: RMB555,806,000) have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see Note 39). The range of effective interest rates of the pledged deposits at 31 December 2019 was 0.25% to 2.93% (2018: 0.25% to 2.52%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The range of effective interest rates of the bank balances at 31 December 2019 was 0.001% to 0.42% (2018: 0.001% to 0.35%) per annum.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period were as follows:

	2019	2018
	RMB'000	RMB'000
Pledged bank deposits and bank balances		
– HK$	**361,484**	82,472
– USD	**58,888**	335,026
– Euro	**38,257**	5,609

The interest market rate of bank overdraft at 31 December 2018 was 4.785% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days of trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date or bills issuance date at the end of the reporting period:

	2019	2018
	RMB'000	RMB'000
Trade payables		
0 to 90 days	**726,116**	839,253
91 to 180 days	**172,467**	440,247
Over 180 days	**30,508**	27,637
	929,091	1,307,137
Bills payables		
0 to 90 days	**797,167**	563,778
91 to 180 days	**543,136**	410,836
Over 180 days	**13,773**	–
	1,354,076	974,614
Other payables and accruals	**936,376**	1,041,738
Deferred income in respect of government grants *(Note 36)*	**125,934**	128,302
Payables in respect of the acquisition of property, plant and equipment	**379,064**	326,334
	3,724,541	3,778,125
Less: Amount due within one year shown under current liabilities	**(3,656,456)**	(3,700,672)
Amount shown under non-current liabilities	**68,085**	77,453

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES *(Continued)*

Included in the trade payables, other payables and payables in respect of the acquisition of property, plant and equipment above are RMB153,229,000, RMB38,597,000 and RMB28,872,000 (2018: RMB26,185,000, RMB413,425,000 and RMB82,956,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of the reporting period (see Note 25).

28. CONTRACT LIABILITIES

	2019 **RMB'000**	2018 RMB'000
Receipts in advances from customers – finished goods	**59,733**	68,439

As at 1 January 2018, contract liabilities amounted to RMB87,054,000.

The following table shows how much of the revenue recognised for the years ended 31 December 2019 and 2018 relates to the contract liabilities at the beginning of the year:

	2019 **RMB'000**	2018 RMB'000
Revenue recognised during of the year	**68,439**	87,054

When the Group receives an amount from certain new customers before products are delivered to and received by the customer, this will give rise to a contract liability at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received. The balance is mainly contributed from new customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. LEASE LIABILITIES

	31/12/2019 RMB'000
Lease liabilities payable:	
Within one year	**1,646**
Within a period of more than one year but not more than two years	**117**
	1,763
Less: Amount due for settlement with 12 months shown under current liabilities	**(1,646)**
Amount due for settlement after 12 months shown under non-current liabilities	**117**

Note: During the year ended 31 December 2019, lease liabilities of RMB7,496,000 (which is classified as non-current liabilities under obligations under finance leases as at 31 December 2018) were early repaid by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	–	111,609	–	108,572
In more than one year but not more than two years	–	7,496	–	7,423
	–	119,105	–	115,995
Less: future finance charges	–	(2,575)	**N/A**	N/A
Less: arrangement fee charges	–	(535)	**N/A**	N/A
Present value of lease obligations	–	115,995	–	115,995
Less: amount due for settlement within one year (shown under current liabilities)			–	(108,572)
Amount due for settlement after one year			–	7,423

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.95% to 4.50% (2018: 3.95% to 4.50%) per annum. These leases have no terms of renewal or purchase options and escalation clauses.

As at 31 December 2018, deposits of RMB46,737,000, which is interest free, were pledged to respective financing institutions against finance leases. Pledged deposits against finance lease of RMB26,709,000 will be released in the coming year upon the expiry of respective leases in 2019 and are therefore classified as current assets while the remaining balance of RMB20,028,000 is included in non-current assets as the deposits will be released after one year from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank loans	**2,493,743**	1,687,109
Discounted bills with recourse *(Note 25)*	**61,793**	373,657
Bonds	**1,095,418**	1,148,188
Other loans	**337,035**	–
	3,987,989	3,208,954
Analysed as:		
Secured	**1,227,033**	1,465,735
Unsecured	**2,760,956**	1,743,219
	3,987,989	3,208,954
The carrying amount of the above borrowings are repayable:		
– Within one year	**1,477,980**	1,586,793
– Within a period of more than one year, but not exceeding two years	**567,594**	490,042
– Within a period of more than two years but not more than five years	**846,997**	1,093,274
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable*:		
– Within one year	**1,095,418**	38,845
	3,987,989	3,208,954
Less: Amount due within one year shown under current liabilities	**(2,573,398)**	(1,625,638)
Amount shown under non-current liabilities	**1,414,591**	1,583,316

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. BORROWINGS *(Continued)*

Interest rate

	2019 RMB'000	2018 RMB'000
Fixed rate	2,057,204	2,209,928
Hong Kong Interbank Offered Rate ("HIBOR") plus 1.50% to 3.00% (2018: HIBOR plus 1.85% to 3.00%)	1,291,680	830,611
PRC Loan Prime Rate ("LPR") plus 0.5% to 0.86% (2018: 1.79%)	342,035	3,000
EURO LIBOR plus 0.80% to 2.00% (2018: LIBOR plus 0.70% to 1.75%)	297,070	165,415
	3,987,989	3,208,954

The range of effective interest rates of the floating rate borrowings at 31 December 2019 is 0.80% to 6.19% (2018: 0.70% to 5.49%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2019 is 0.3% to 5.72% (2018: 1.85% to 6.81%) per annum.

In 2015 and 2016, the Group established a bond issue programme for issuance of bonds from time to time, with a term of three years. As at 31 December 2019, the outstanding balance of the fixed rate bonds amounting to nil (2018: RMB54,915,000) were unsecured, carried a fixed coupon rate of 6% per annum and were repayable in instalments semi-annually in arrears on 31 May and 30 November. The bonds issued at par, carry interest at an effective interest rate of 6.81% per annum and the maturity dates are in February, July, September, October, November and December 2019. The bonds have been fully repaid as at 31 December 2019.

In March 2017, the Group issued fixed rate bonds of RMB1,100,000,000 carrying a fixed coupon rate of 5.5% per annum with a maturity of three years (extendable to five years) and was redeemable at par value (the "Corporate Bonds"). As at 31 December 2019, the carrying amount of fixed rate bonds is RMB1,095,418,000 (2018: RMB1,093,274,000). The Company has the right to adjust the interest rate after the expiration of 3 years of maturity period, and the interest adjustment notice will be issued on the 30th trading day prior to the 3rd years' interest payment date. The bondholders have the option to extend two more years after the issuance of the interest adjustment notice. The Corporate Bonds are issued at par, carries at an effective interest rate of 5.72% per annum. The Corporate Bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, listed and traded on The Shanghai Stock Exchange. As the bondholders have the right to demand payment of the Corporate Bonds from the Group as at 31 December 2019, the Corporate Bonds have been included in current liabilities as at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. BORROWINGS *(Continued)*

Interest rate *(Continued)*

During the year ended 31 December 2019, other borrowing of RMB337,035,000 (2018: nil) has been advanced from other financing institutions, independent third parties not connected to the Group, which is subject to floating interest rate and secured by plant and machinery with carrying amount of RMB843,228,000.

As at 31 December 2019, deposits of RMB31,423,000, which is interest free, were pledged to respective financing institutions. The deposits of RMB7,423,000 will be released in the coming year upon the expiry of respective loans in 2020 and are therefore classified as current assets while the remaining balance of RMB24,000,000 is included in non-current assets as the deposits will be released after one year from the end of the reporting period.

Other than borrowings of RMB1,291,680,000 (2018: RMB953,807,000) and RMB687,063,000 (2018: RMB165,415,000) are denominated in HK$ and EUR, respectively, the remaining borrowings are all in RMB.

32. CONVERTIBLE BONDS

On 5 December 2016, the Company issued USD denominated HKD settled 4.5% unsecured convertible bonds (the "Convertible Bonds") at par with the aggregate principal amount of USD130,000,000 with initial conversion price of HK$5.35 (subject to adjustments) per share at a fixed exchange rate of HK$7.7563 to USD1.00. An adjustment has been made to the conversion price from HK$5.35 to HK$4.86 on a one-time basis on 13 December 2016 pursuant to the terms and conditions as prescribed in the subscription agreement dated 21 November 2016. Subsequently, an adjustment has been made to the conversion price from HK$4.86 to HK$4.72 on a one-time basis on 31 October 2019 pursuant to the terms and conditions as prescribed in the subscription agreement dated 21 November 2016. The Convertible Bonds are listed on the Hong Kong Stock Exchange ("Stock Exchange").

The Convertible Bonds bear interest from (and including) the issue date at the rate of 4.5% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrears on 5 June and 5 December of each year, commencing with the first interest payment date falling on 5 June 2018. The Convertible Bonds will mature on 5 December 2021 and shall be redeemed by the Company at par, together with accrued interest thereon, on 5 December 2021.

Conversion at the option of the bondholder may occur at any time between 15 January 2017 and 27 November 2021. The Company will, at the option of the bondholder, redeem all or some of the Convertible Bonds on 5 December 2019 at their principal amount, with accrued but unpaid interest excluding the date fixed for redemption. As at 5 December 2019, no bondholder has redeemed the Convertible Bonds and the option expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. CONVERTIBLE BONDS *(Continued)*

The Company may at any time after 5 December 2019 and prior to 5 December 2021, the date of maturity, redeem the Convertible Bonds in whole, but not in part, at their principal amount, together with interest accrued but unpaid up to the day before the date fixed for redemption, provided that the closing price of the shares of the Company, translated into US dollars at the prevailing rate applicable to the relevant trading day, for 30 consecutive trading days prior to the date upon which notice of such redemption is published is at least 130% of the conversion price then in effect, translated into US dollars at the fixed exchange rate of HK$7.7563 to USD1.00.

The Company may at any time redeem the outstanding Convertible Bonds in whole, but not in part, at their principal amount together with interest accrued but unpaid up to the day before the date fixed for redemption if, immediately prior to the date of notice, at least 90% of principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled. As at 31 December 2019, the Company has not redeemed the outstanding Convertible Bonds.

The Convertible Bonds contain liability component, conversion option and early redemption option derivatives. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option and the Company's and the bond holder's early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

At the date of issue, the debt component was recognised at fair value, calculated based on the present value of the redemption amount at maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component is 14.6% (2018: 14.6%).

The derivatives components of the Convertible Bonds are measured at fair values at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

In June 2018, the Convertible Bonds with fixed principal amount of USD8,049,000 (equivalent to approximately RMB51,111,000) were converted into total 12,845,770 ordinary shares of HK$0.01 each at a conversion price of HK$4.86 per conversion share (Note 34).

In December 2019, the Convertible Bonds with fixed principal amount of USD1,000,000 (equivalent to approximately RMB7,756,000) were converted into total 1,643,283 ordinary shares of HK$0.01 each at a conversion price of HK$4.72 per conversion share (Note 34).

As at 31 December 2019, the Convertible Bonds in an aggregate principal amount of USD120,951,000 (equivalent to approximately RMB846,580,000) remained outstanding with a maturity date of 5 December 2021, and is classified as a non-current liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer. The movement of the Convertible Bonds for the year ended 31 December 2019 and 2018 are set out as below:

	Debt component RMB'000	**Derivative components RMB'000**	**Total amount RMB'000**
At 1 January 2018	597,504	440,719	1,038,223
Interest charged	88,648	–	88,648
Interest paid	(35,121)	–	(35,121)
Conversion into ordinary shares	(37,526)	(43,651)	(81,177)
Exchange loss	32,135	14,600	46,735
Gain arising on changes of fair value	–	(226,414)	(226,414)
At 31 December 2018	645,640	185,254	830,894
Interest charged	97,356	–	97,356
Interest paid	(37,924)	–	(37,924)
Conversion into ordinary shares	(5,878)	(2,459)	(8,337)
Exchange loss	11,768	4,559	16,327
Loss arising on changes of fair value	–	110,117	110,117
At 31 December 2019	**710,962**	**297,471**	**1,008,433**

Binomial model is used for valuation of the derivative components of the Convertible Bonds. Details of the inputs and assumptions of the model are as follows:

	31 December 2019	31 December 2018
Share price of the Company	**HK$5.68**	HK$4.16
Exercise price	**HK$4.72**	HK$4.86
Remaining life	**1.93 years**	2.93 years
Risk-free rate	**1.737%**	1.758%
Expected volatility	**40.811%**	42.416%
Expected dividend yield	**1.202%**	1.474%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. CONVERTIBLE BONDS *(Continued)*

Risk-free rate was determined by using the average of 3-year yield and 5-year yield of HK$ Hong Kong Sovereign bonds on each of the end of the reporting period.

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company over periods that are commensurate with the time to maturity at the respective valuation date.

Expected dividend yield was determined by the sustainability of the Company's dividend policy.

33. DEFERRED TAXATION

The followings are the deferred tax assets (liabilities) recognised and movements thereon for the current and prior years:

	Fair value change on investment properties RMB'000	**Accelerated (tax) accounting depreciation RMB'000**	**Unrealised profit on inventories RMB'000**	**Withholding tax on undistributed profits of the PRC subsidiaries RMB'000**	**Total RMB'000**
At 1 January 2018	(275,421)	(2,398)	14,167	(84,848)	(348,500)
Credit (charge) to profit or loss for the year	52,267	(1,858)	1,349	15,392	67,150
At 31 December 2018	(223,154)	(4,256)	15,516	(69,456)	(281,350)
Credit (charge) to profit or loss for the year	38,121	12,962	(585)	(8,347)	42,151
Disposal of a subsidiary *(Note 10)*	185,033	27,652	–	–	212,685
At 31 December 2019	**–**	**36,358**	**14,931**	**(77,803)**	**(26,514)**

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For the year ended 31 December 2019

33. DEFERRED TAXATION *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2019 **RMB'000**	2018 RMB'000
Deferred tax assets	**51,289**	15,516
Deferred tax liabilities	**(77,803)**	(296,866)
	(26,514)	(281,350)

The Group's unrecognised deductible temporary differences are as follows:

	2019 **RMB'000**	2018 RMB'000
Tax losses carry forwards	**1,091,833**	990,283

During the years ended 31 December 2019 and 2018, no tax loss expired by respective local tax authorities. Included in unrecognised tax losses are losses of RMB581,559,000 (2018: RMB565,811,000) that will expire within five years. Other losses may be carried forward indefinitely. No deferred tax asset in respect of tax losses has been recognised because the amount of future taxable profit that will be available to realise such assets is uncertain.

The unused tax losses will be expired as follow:

	2019 **RMB'000**	2018 RMB'000
2021	**438,119**	442,007
2022	**100,302**	100,302
2023	**23,502**	23,502
2024	**19,636**	–
	581,559	565,811

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34. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2018	1,626,875,000	16,269
Issue of ordinary shares upon conversion of Convertible Bonds *(Note 32)*	12,845,770	128
At 31 December 2018	1,639,720,770	16,397
Issue of ordinary shares upon conversion of Convertible Bonds *(Note 32)*	1,643,283	16
At 31 December 2019	1,641,364,053	16,413

	RMB'000
Shown in the consolidated financial statements as:	
At 31 December 2019	15,360
At 31 December 2018	15,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. EMPLOYEE RETIREMENT BENEFITS

The Group participates in Mandatory Provident Fund Schemes ("MPF Schemes") for all employees in Hong Kong. The MPF Schemes are registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Schemes, the employer and its employees are each required to make contributions to the MPF Schemes at 5% of the employee's basic salary with the maximum contribution of HK$1,500 per month. The obligation of the Group with respect of MPF Schemes is to make the required contributions under the MPF Schemes. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of RMB1,003,000 (2018: RMB776,000) are charged to profit or loss.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of RMB118,941,000 (2018: RMB99,181,000) are charged to profit or loss.

36. GOVERNMENT GRANTS

Incentive subsidies of RMB26,562,000 (2018: RMB53,772,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

Certain subsidies relate to the development of pharmaceutical products or improvement of production efficiency amounting of RMB57,849,000 (2018: RMB50,849,000) as at 31 December 2019 are included as payables. The amounts are recognised as income when the Group has fulfilled the relevant conditions attaching to the grants, including but not limited to obtaining the medical licenses of the pharmaceutical products or the starting of commercial sales of the pharmaceutical products. During the year, the Group has recognised the government grant of approximately RMB4,111,000 (2018: RMB8,290,000) as income in profit or loss.

Government subsidies granted for the acquisition of property, plant and equipment by the Group brought forward from prior year had been treated as deferred income and was transferred to income over the useful lives of the relevant assets. As at 31 December 2019, an amount of RMB68,085,000 (2018: RMB77,453,000) were included in non-current liabilities. During the year ended 31 December 2019, RMB9,368,000 (2018: RMB7,494,000) was released to the profit or loss.

The aggregate subsidy income recognised to the profit or loss during the year ended 31 December 2019 amounted to RMB40,041,000 (2018: RMB69,556,000) (Note 6).

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37. OPERATING LEASES

The Group as lessee

	2018 RMB'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:	
Within one year	476

Operating lease payments represent rentals payable by the Group for a staff quarter and shuttle buses.

Lease are negotiated for terms within one year and rentals are fixed throughout the lease term.

38. CAPITAL COMMITMENTS

	2019 **RMB'000**	2018 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**369,170**	633,246

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For the year ended 31 December 2019

39. PLEDGE OF OR RESTRICTIONS ON ASSETS

Pledge of assets

Other than deposits made to financing institutions disclosed in Note 30 and 31 of the consolidated financial statements, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**545,169**	576,407
Rights-of-use assets	**183,013**	–
Land use rights	**–**	44,491
Bills receivables	**61,793**	373,657
Pledged bank deposits	**724,981**	555,806

Restrictions on assets

In addition, lease liabilities of RMB1,763,000 are recognised with related right-of-use assets of RMB1,709,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Furthermore, bills receivables issued by third parties endorsed with recourse for settlement of trade payables, other payables and payables in respect of the acquisition of property, plant and equipment, are disclosed in Notes 25 and 27.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of funding of cash flows from operating activities and the flexibility through the use of the finance from banks. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of debt, which includes the obligations under finance leases (Note 30), borrowings (Note 31) and convertible bonds (Note 32), lease liabilities (Note 29), and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's capital structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial asset at FVTPL	**500**	500
Financial assets at amortised cost	**7,281,821**	5,187,238
Financial liabilities		
Financial liabilities at amortised cost	**7,572,535**	6,827,424
Derivative financial instruments	**297,471**	185,254

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, other pledged deposits, bank balances and cash, financial asset at FVTPL, trade and bills payables, convertible bonds, borrowings and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The risk arising from the Group's financial instruments are mainly market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The directors review policies for managing each of these risks, details of which are summarised below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Foreign currency risk

The Group has foreign currency sales and purchases, and also convertible bonds, certain bank balances and bank borrowings denominated in USD, Euro and HK$ other than the functional currency of respective group entities, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to eliminate the currency exposures.

The carrying amounts of the Group's net monetary assets and monetary liabilities denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities, at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**356,403**	587,056	**1,027,071**	841,012
Euro	**42,089**	6,800	**687,217**	165,870
HK$	**362,393**	82,869	**1,445,394**	966,070

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For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in RMB against USD, Euro and HK$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for both years where RMB strengthens 5% against USD, Euro and HK$. For a 5% weakening of RMB against USD, Euro and HK$, there would be an equal but opposite impact on the profit for both years.

	2019 **RMB'000**	2018 RMB'000
USD	**28,909**	12,927
Euro	**26,634**	6,645
HK$	**43,655**	39,179

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during both years.

Fair value and cash flow interest rate risks

The Group has significant borrowings which bear interest-rate risk. Floating rate borrowings, bank deposits and bank balances expose the Group to cash flow interest-rate risk. Borrowings, leases liabilities, obligations under finance leases and convertible bonds issued at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risks (Continued)

Interest rate sensitivity analysis

No sensitivity analysis was prepared for pledged bank deposits and bank balances as the financial impact arising on changes in interest rates was minimal due to limited changes in interest rate. The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the end of the reporting period, if interest rates of HIBOR, LIBOR and LPR had been increased/decreased by 50 basis points, respectively and all other variable remained constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by RMB5,311,000, RMB1,222,000 and RMB1,432,000, respectively (2018: decrease/increase by RMB3,184,000, RMB634,000 and RMB10,000, respectively).

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk

The conversion option and early redemption option derivatives of the Company's convertible bonds carried at fair value exposed the Group to equity price risk.

Equity price risk sensitivity analysis

If the share price of the Company input to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% (2018: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2019 would decrease/increase by approximately RMB60,976,000/RMB56,753,000 (2018: RMB30,513,000/ RMB23,456,000).

If the expected volatility of share price of the Company input to the valuation model for assessing the fair value of such derivatives had been 10% (2018: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2019 would decrease/increase by approximately RMB13,684,000/RMB11,004,000 (2018: RMB27,152,000/RMB26,955,000).

Credit risk and impairment assessment

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills and therefore the directors of the Company consider the credit risk arising from the endorsed or discounted bills is insignificant. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade balances based on provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. An impairment of RMB23,167,000 (2018: RMB25,518,000) has been recognised during the year. Details of the quantitative disclosures are set out below in this note.

The credit risk on bank balances, pledged bank deposits and bills receivables are limited because the counterparties are banks mostly with high credit ratings of grade A or above assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

To manage the risk arising from other receivables and other pledged deposits, the Group only transacts with reputable parties that have no default history and have a strong capacity to meet its contractual cash flow obligations in the near term. The credit risk on other pledged deposits are limited because the counterparties are financial institutions with high external credit ratings of grade A or above. The management has concluded that the expected credit losses for other pledged deposits are not significant.

In addition, the management assessed the expected credit losses of other receivables, including consideration receivables, based on historical default loss and forward looking information. The gross carrying amounts of other receivables that are assessed individually and based on provision matrix are RMB773,693,000 and RMB50,179,000 as at 31 December 2019 respectively (2018: nil and RMB59,201,000). During the year ended 31 December 2019, an impairment loss of RMB13,383,000 and RMB3,034,000 has been recognised (2018: nil and RMB6,411,000) in connection with other receivables that are assessed individually and collectively, respectively. Of the total impairment loss, RMB13,383,000 (2018: nil) was recognised in respect of the gross consideration receivables of RMB773,693,000 (2018: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table shows the movement in ECL that has been recognised for other receivables.

	12m ECL RMB'000
As at 1 January 2018	31,988
Changes due to other receivables recognised as at 1 January 2018:	
Impairment losses reversed	(14,823)
Write-offs	(17,165)
Newly originated other receivables	6,411
As at 31 December 2018	6,411
Changes due to other receivables recognised as at 1 January 2019:	
Impairment losses reversed	(6,411)
Newly originated other receivables	16,417
As at 31 December 2019	16,417

Changes in the loss allowance for other receivables are mainly due to:

	31/12/2019 Decrease in 12m ECL RMB'000	31/12/2018 Decrease in 12m ECL RMB'000
Newly originated other receivable balance in 2019 with gross amount of RMB823,872,000 (2018: RMB59,201,000)	**16,417**	**6,411**
Settlement in full of other receivables with a gross carrying amount of RMB59,201,000 (2018: RMB42,036,000)	**(6,411)**	**(14,823)**
Full write-offs of other receivables with a gross carrying amount of nil (2018: RMB17,165,000)	**–**	**(17,165)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	Low risk types customers represent the counterparty has a low risk default and no material past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Normal risk	Normal risk types customers represent debtors frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
High risk	High risk types customers represent there have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	12m ECL
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

As part of the Group's credit risk management, the Group applied provision matrix based on grouping common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The customers are categorised into different internal credit ratings with higher, normal and lower risks, by assessing their business scale, market competitiveness, repayment ability and business reputation. The default rate of the internal credit ratings are based on historical default record of each category. The rate is then adjusted by forward looking macro-economic factors and the adjusting rate incremental in each aging group and risk level proposed by the group. The following expected credit loss rates are about the exposure to credit risk for trade receivables which are assessed based on provision matrix taking into account the weighted average rate of various categories' debtors as at 31 December 2019 within lifetime ECL (not credit impaired).

	2019			2018		
	Average loss rate	**Gross carrying amount RMB'000**	**Allowance amount RMB'000**	Average loss rate	Gross carrying amount RMB'000	Allowance amount RMB'000
Low risk	**0.08%**	**681,406**	**545**	0.68%	522,444	3,553
Normal risk	**0.92%**	**357,912**	**3,293**	1.55%	498,353	7,724
High risk	**9.55%**	**202,218**	**19,329**	12.50%	113,952	14,241
		1,241,536	**23,167**		1,134,749	25,518

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, an impairment loss of RMB23,167,000 (2018: RMB25,518,000) has been recognised for trade receivables, based on the provision matrix.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit–impaired) RMB'000	Total RMB'000
As at 1 January 2018	–	19,212	19,212
Changes due to trade receivables recognised as at 1 January 2018:			
Impairment losses reversed	–	(19,212)	(19,212)
Newly originated trade receivables	25,518	–	25,518
As at 31 December 2018	25,518	–	25,518
Changes due to trade receivables recognised as at 1 January 2019:			
Impairment losses reversed	(25,518)	–	(25,518)
Newly originated trade receivables	23,167	–	23,167
As at 31 December 2019	23,167	–	23,167

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Changes in the loss allowance for trade receivables are mainly due to:

	31/12/2019 Increase/(decrease) in lifetime ECL		31/12/2018 Increase/(decrease) in lifetime ECL	
	Not credit-impaired RMB'000	Credit-impaired RMB'000	Not credit-impaired RMB'000	Credit–impaired RMB'000
Newly originated trade receivable balance in 2019 With gross amount of RMB1,241,536,000 (2018: RMB1,134,749,000)	23,167	–	25,518	–
Settlement in full of trade debtors with a gross carrying amount of RMB1,134,749,000 (2018: RMB1,066,835,000)	(25,518)	–	–	(19,212)

The Group writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier. During the year ended 31 December 2019, nil (2018: nil) and nil (2018: 17,165,000) of the trade and other receivables have been written off, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at the date of these consolidated financial statements, the Group has available unutilised banking facilities of RMB4,431,377,000 (2018: RMB2,946,468,000). The directors of the Company are of the view that the banking facilities could be renewed based on historical experience that the Group has not encountered any difficulties to obtain banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates as at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand or less than 1 month RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2019							
Trade, bills and other payables	–	398,739	1,696,475	778,370	–	2,873,584	2,873,584
Borrowings							
– floating-rate	3.82	13,261	51,174	658,095	1,391,172	2,113,702	1,930,785
– fixed-rate	4.48	1,268,996	237,132	485,940	161,972	2,154,040	2,057,204
Convertible bonds*	14.60	–	18,962	16,179	899,990	933,131	1,008,433
Lease liabilities	6.25	143	285	1,283	119	1,830	1,763
		1,681,139	2,004,028	1,939,867	2,453,253	8,078,287	7,871,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate %	On demand or less than 1 month RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018							
Trade, bills and other payables	–	654,275	1,907,720	410,835	–	2,972,830	2,972,830
Obligations under finance leases	4.10	42,187	–	69,422	7,496	119,105	115,995
Borrowings							
– floating-rate	3.41	41,605	1,690	519,012	449,670	1,011,977	999,026
– fixed-rate	4.72	201,616	162,782	781,265	1,329,508	2,475,171	2,209,928
Convertible bonds*	14.60	–	18,199	845,265	–	893,790	830,894
		939,683	2,040,391	2,625,799	1,786,674	7,472,873	7,128,673

* The carrying amount of the convertible bonds disclosed here includes the carrying amount of the related derivative component.

The table below summarises the maturity analysis of term loans of RMB1,095,418,000 (2018: RMB38,845,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements as at 31 December 2019. The amounts include interest payments computed using the specified fixed rates or variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors of the Company believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Bank loans with a repayment on demand clause based on scheduled repayments					
	Less than 1 month RMB'000	**1 – 3 months RMB'000**	**3 months to 1 year RMB'000**	**1 – 5 years RMB'000**	**Total undiscounted cash outflows RMB'000**	**Carrying amount RMB'000**
31 December 2019	**5,152**	**10,304**	**47,227**	**1,105,550**	**1,168,233**	**1,095,418**
31 December 2018	–	9,385	31,266	–	40,651	38,845

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. at prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December 2019 RMB'000	31 December 2018 RMB'000				
Financial assets						
Financial asset at fair value through profit or loss – unquoted equity investment	**RMB500**	RMB500	Level 3	Method of comparables is used to evaluate the market value of the unquoted equity investments by using price to book ratio of listed entities in similar industries	– discount for lack of marketability of 30% (2018: 30%), determined by reference to recent market research	– A significant increase in the discount for lack of marketability would result in a significant decrease in the fair value
Financial liabilities						
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**RMB297,417**	RMB185,254	Level 3	Binomial Pricing Model Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives component is the difference between the value of the Convertible Bonds and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – volatility of 40.81% (2018: 42.42%) is applied in the Convertible Bonds by reference to the Company's historical volatility	– A significant increase in the dividend yield would result in a significant decrease in the fair value – A slight increase in the volatility in share price would result in a significant increase in the change in fair value

The unrealised fair value loss of embedded derivatives components of the Convertible Bonds is RMB110,117,000 (2018: gain RMB226,414,000) during the year ended 31 December 2019.

The reconciliations of recurring fair value measurement of above liabilities at Level 3 fair value measurements are set out in Note 32. There is no transfer between the different levels of the fair value hierarchy for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(Continued)

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

	31.12.2019			31.12.2018		
	Carrying amount RMB'000	**Fair value RMB'000**	**Fair value hierarchy RMB'000**	Carrying amount RMB'000	Fair value RMB'000	Fair value hierarchy RMB'000
Financial liabilities						
Corporate Bonds (included in borrowings) – fixed rate	**1,095,418,000**	**1,100,000,000**	**Level 1**	1,093,274,000	1,100,000,000	Level 1

There is no transfer between the different levels of the fair value hierarchy for both years.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. For the embedded derivative component of the Convertible Bonds and unlisted equity investment, the third party qualified valuers were engaged by the Group to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Borrowings RMB'000 *(Note 31)*	Convertible bonds RMB'000 *(Note 32)*	Obligations under finance leases RMB'000 *(Note 30)*	Lease liabilities RMB'000 *(Note 29)*	Dividend payable RMB'000 *(Note 15)*	Total RMB'000
At 1 January 2018	3,469,043	1,038,223	401,233	–	–	4,908,499
Financing cash flows	(379,620)	(35,121)	(304,986)	–	(84,443)	(804,170)
Derecognition of bills receivables	(24,587)	–	–	–	–	(24,587)
Conversion of convertible bond	–	(81,177)	–	–	–	(81,177)
Fair value change	–	(226,414)	–	–	–	(226,414)
Finance cost	160,480	88,648	19,748	–	–	268,876
Dividend declared	–	–	–	–	84,443	84,443
Exchange loss	(16,362)	46,735	–	–	–	30,373
At 31 December 2018	3,208,954	830,894	115,995	–	–	4,155,843
Adjustment upon application of HKFRS 16	–	–	(115,995)	119,305	–	3,310
At 1 January 2019	**3,208,954**	**830,894**	**–**	**119,305**	**–**	**4,159,153**
Financing cash flows	**574,131**	**(37,924)**	**–**	**(120,093)**	**(98,383)**	**317,731**
Derecognition of bills receivables	**(16,019)**	**–**	**–**	**–**	**–**	**(16,019)**
Conversion of convertible bond	**–**	**(8,337)**	**–**	**–**	**–**	**(8,337)**
Fair value change	**–**	**110,117**	**–**	**–**	**–**	**110,117**
Finance cost	**185,240**	**97,356**	**–**	**2,551**	**–**	**285,147**
Dividend declared	**–**	**–**	**–**	**–**	**98,383**	**98,383**
Exchange loss	**35,683**	**16,327**	**–**	**–**	**–**	**52,010**
At 31 December 2019	**3,987,989**	**1,008,433**	**–**	**1,763**	**–**	**4,998,185**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

44. MAJOR NON-CASH TRANSACTIONS

During the year, short term borrowings drawn on discounted bills with recourse with an aggregate amount of RMB16,019,000 (2018: RMB24,587,000) have been derecognised when the related discounted bills receivables were matured.

During the year ended 31 December 2019, the Group has reclassified certain plant and machinery under sales and leaseback arrangement amounting to RMB209,324,000 from right-of-use assets into property, plant and equipment by exercising the purchase option at nominal amount at the end of the lease term.

45. RELATED PARTY DISCLOSURES

Compensation to key management personnel representing directors' remuneration has been disclosed in Note 13.

46. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2019	2018	Principal activities and place of operation
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
Bowden Trading Limited In Hong Kong	Samoa	USD1,000	**100%**	100%	Trademark holding
The United Laboratories Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holding and manufacturing and sale of pharmaceutical products in Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products in Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding in Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive

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For the year ended 31 December 2019

46. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2019	2018	Principal activities and place of operation
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦制藥(成都)有限公司 *(Note g)*	The PRC	RMB400,000,000	**0%**	100%	Investment holding in the PRC
珠海聯邦康知樂實業有限公司 *(Note c)*	The PRC	RMB250,000,000	**100%**	100%	Investment holding in the PRC
珠海聯邦制藥股份有限公司 *(Notes d and f)*	The PRC	RMB1,678,396,000	**100%**	100%	Manufacturing and sale of pharmaceutical products in the PRC
珠海樂邦制藥有限公司 *(Note b)*	The PRC	RMB12,825,000	**100%**	100%	Investment holdings in the PRC
珠海市萬邦藥業有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC
珠海聯邦制藥銷售有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC
廣東開平金億膠囊有限公司 *(Note b)*	The PRC	RMB31,250,000	**100%**	100%	Manufacturing and sale of soft capsules casings in the PRC
中山金億食品有限公司 *(Note b)*	The PRC	RMB8,014,500	**100%**	100%	Investment holding in the PRC
珠海市金德福企業策劃有限公司 *(Note c)*	The PRC	RMB15,000,000	**100%**	100%	Investment holding in the PRC
聯邦制藥(內蒙古)有限公司 *(Note b)*	The PRC	RMB2,744,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
內蒙古光大聯豐生物科技有限公司 *(Note c)*	The PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertiliser in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

46. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)*		Principal activities and place of operation
			2019	2018	
內蒙古聯邦動保藥品有限公司 *(Note c)*	The PRC	RMB35,200,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
聯邦制藥(中國)有限公司 *(Note b)*	The PRC	RMB160,080,000	**100%**	100%	Investment holding in the PRC
珠海聯邦金龍行銷策劃有限公司 *(Note c)*	The PRC	RMB50,000,000	**100%**	100%	Providing management services in the PRC
成都樂邦生物醫藥科技有限公司 *(Note c and e)*	The PRC	RMB1,000,000	**100%**	N/A	Investment holding in the PRC
成都智匯城有限公司 *(Note c and e)*	The PRC	RMB10,000,000	**100%**	N/A	Investment holding in the PRC
聯邦製藥(中山)有限公司 (Note c)	The PRC	RMB50,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical products and food production in the PRC

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited, all subsidiaries are indirectly held by the Company.

(b) A wholly foreign-owned enterprise established in the PRC.

(c) A company established in the PRC with limited liability.

(d) A joint stock limited liability company established in the PRC.

(e) A company established in the PRC during the year ended 31 December 2019.

(f) 珠海聯邦制藥股份有限公司 issued unsecured corporate bonds which are listed on the Shanghai Stock Exchange as at 31 December 2019 and 2018. Details are set out in Note 31.

(g) The company has been disposed to a third party during the year ended 31 December 2019.

As at 31 December 2019 and 2018, none of the subsidiaries had issued any debt securities except for 珠海聯邦制藥股份有限公司 which has issued RMB1,100,000,000 of bonds, in which the Group has no interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company

	2019 RMB'000	2018 RMB'000
Non-current assets		
Interests in subsidiaries	**4,058,950**	4,559,649
Property, plant and equipment	**1,159**	940
	4,060,109	4,560,589
Current assets		
Other receivables and prepayments	**1,021**	464
Loan to a subsidiary	**–**	144,879
Amounts due from subsidiaries	**1,687,534**	1,091,797
Bank balances and cash	**394,746**	136,861
	2,083,301	1,374,001
Current liabilities		
Other payables and accrued charges	**5,735**	3,627
Amount due to a subsidiary	**120**	–
Borrowings – due within one year	**502,281**	646,119
Convertible bonds	**–**	830,894
	508,136	1,480,640
Net current assets (liabilities)	**1,575,165**	(106,639)
Total assets less current liabilities	**5,635,274**	4,453,950
Non-current liabilities		
Borrowings – due after one year	**872,377**	429,487
Convertible bonds	**1,008,433**	–
	1,880,810	429,487
Net assets	**3,754,464**	4,024,463
Capital and reserves		
Share capital	**15,360**	15,346
Reserves	**3,739,104**	4,009,117
	3,754,464	4,024,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(b) Reserves

	Share premium RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018	2,356,763	1,467,813	3,824,576
Profit and total comprehensive income for the year	–	187,916	187,916
Dividends recognised as distribution *(Note 15)*	–	(84,443)	(84,443)
Issue of shares upon conversion of convertible bonds *(Note 32)*	81,068	–	81,068
At 31 December 2018	2,437,831	1,571,286	4,009,117
Loss and total comprehensive expense for the year	–	(179,953)	(179,953)
Dividends recognised as distribution *(Note 15)*	–	(98,383)	(98,383)
Issue of shares upon conversion of convertible bonds *(Note 32)*	8,323	–	8,323
At 31 December 2019	**2,446,154**	**1,292,950**	**3,739,104**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

48. EVENTS AFTER THE REPORTING PERIOD

(a) Impact of Novel Coronavirus ("COVID-19") to the Group

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impacts on the global business environment. Up to the date of authorisation for issue of financial statements, COVID-19 has not resulted in material impact to the Group's operations. In spite of effect of COVID-19, most of the factories of the Group remained normal manufacturing activities after its Chinese New Year holiday. The management at present expects that there should be no material adverse impact to the Group's financial position and operations for the year 2020.

The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operations of the Group.

(b) Repayment of Corporate Bonds

Subsequent to the end of reporting period, Corporate bonds of RMB1,095,418,000 as set out in Note 31 was fully repaid on 24 February 2020.

(c) Conversion of Convertible Bonds

Subsequent to the end of reporting period, the Company received a notice from a bondholder for the conversion of bonds with principal amount of USD2,224,000 (equivalent to approximately RMB17,250,000) into 3,654,663 ordinary shares of HK$0.01 each at a conversion price of HK$4.72 per conversion share.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	6,270,015	6,077,944	6,826,645	7,510,586	**8,392,600**
Profit (loss) before taxation	191,837	(137,472)	68,951	793,879	**841,652**
Tax (expense) credit	(101,910)	(134,891)	12,807	(110,951)	**(199,888)**
Profit (loss) for the year attributable to owners of the Company	89,927	(272,363)	81,758	682,928	**641,764**

ASSETS AND LIABILITIES

	As at 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Total assets	14,610,410	14,966,056	14,111,846	14,602,297	**15,699,692**
Total liabilities	(8,984,672)	(9,618,570)	(8,670,081)	(8,480,255)	**(9,027,903)**
Equity attributable to owners of the Company	5,625,738	5,347,486	5,441,765	6,122,042	**6,671,789**