康哲®

康哲药业 CHINA MEDICAL SYSTEM

2018 ANNUAL REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE:867)

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. LEUNG Chong Shun

Remuneration Committee Members

Mr. LEUNG Chong Shun (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

China Merchants Bank, Shenzhen Branch
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Citibank (China) Co., Ltd., Shenzhen Branch
Industrial and Commercial Bank of China, Shenzhen Branch

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

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North Point
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Principal Contact Address in the PRC

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Shenzhen 518052
Guangdong Province
the PRC

Branch Share Registrar in Hong Kong

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

Stock Code

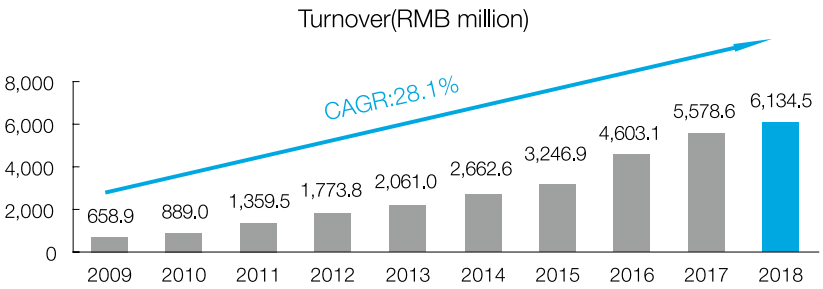
867

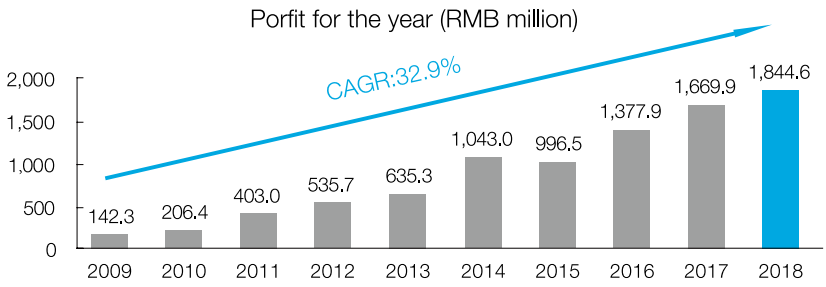
Company's Website

www.cms.net.cn

- Turnover up 1.6% to RMB5,433.4 million (2017: RMB5,348.8 million); excluding the effect of the "two-invoice system", turnover up 10.0% to RMB6,134.5 million (2017: RMB5,578.6 million)
- Gross profit up 12.6% to RMB3,916.9 million (2017: RMB3,478.3 million); excluding the effect of the "two-invoice system", gross profit up 10.5% to RMB3,616.8 million (2017: RMB3,272.2 million)
- Profit for the year up 10.5% to RMB1,844.6 million (2017: RMB1,669.9 million)
- Basic earnings per share up 10.5% to RMB0.7441 (2017: RMB0.6734)
- As at 31 December 2018, the Group's bank balances and cash amounted to RMB815.1 million while readily realizable bank acceptance bills amounted to RMB291.6 million
- Proposed final dividend of RMB0.1434 per share, bringing the total dividend for the year ended 31 December 2018 to RMB0.2970 per share, representing an increase of 10.6% of last year (2017: final dividend of RMB0.1393 and total dividend of RMB0.2686 per share respectively)

Turnover (excluding the effect of the "two-invoice system") and profit of the Group for the latest ten years are set out below:





Consolidated Balance Sheet Highlights

	As at 31 December				
	2014	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	4,905,281	6,397,583	9,791,593	10,148,843	10,506,452
Total liabilities	914,442	1,045,115	3,523,769	2,820,586	2,102,377
Net assets	3,990,839	5,352,468	6,267,824	7,328,257	8,404,075

CHAIRMAN'S STATEMENT

Dear shareholders and partners,

2018 is the key year for China Medical System Holdings Limited (the "Company") to achieve strategic transformation and breakthrough. Looking back on the past eight years as a listed company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company's financial performance has successively broken new records. At the same time, according to the development trends of the industry, the Company has been constantly seeking for revolution, and has gradually developed into a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China. I would like to sincerely thank all our shareholders and partners on behalf of the Board of Directors of the Company (the "Board of Directors") for your concern and unwavering supports. Below you will find the Annual Report of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2018 (the "Reporting Period").

Grasping the Trend and Driving the Transformation

In the past year, the pharmaceutical industry in China has undergone profound transformation. With the official implementation of the State "Procurement with Volume in 11 Cities", the decline of drug prices has become an inevitable trend, accelerating the restructuring of the industry structure. However, various policies such as encouraging drug innovation, accelerating drug review and approval have been issued successively, creating unprecedented opportunities for the development of China's innovative drug market. In the long run, for pharmaceutical enterprises with long-term persistence to innovation and internationalization, portfolio advantages, sales and marketing capability and resource integration ability, are capable of growing continuously under the process of industrial advancement. Innovation serves as the soul for promoting the advancement of pharmaceutical companies, and the impetus of their prosperity. After years of deep understanding and unique discretion of the industry trend, the Group has found the most suitable strategic path conforming to the industry trend. Since 2018, the Group has increased its continuous efforts on innovative product R&D. By utilizing the overseas resource network accumulated for more than two decades, with its international vision the Group has sought for innovative patented products to meet China's unmet medical needs. The Group mainly invested in equities of overseas innovative clinical-stage pharmaceutical companies with R&D capabilities in specific fields. With the help of their unique R&D platform resources, the Group laid out innovative patented products in a multi-dimensional way, enriching its innovative products reserve with the collaborative research mode.

The Group is committed to offering competitive products and services to satisfy China's unmet medical needs. As of the end of 2018, CMS has strategically invested in equities of several clinical stage companies in the UK, France, Switzerland and the U.S. These clinical stage companies own R&D teams with rich experiences in the field of drug development and healthcare, as well as their focus on neurological wellness, central nervous system, infectious disease treatment, nano-medicines therapy, acute thrombotic disease, and oral T-cell immunotherapy related innovative R&D fields. The Group has acquired markets rights of mainly nine innovative products in China and some Asia-Pacific countries. Among them, the Group has been working on the relevant preparations of the registration and application of two products to launch in China: PoNS, for the treatment of balancing disorders in brain related diseases, and NRL-1, for the treatment of acute repetitive seizures. Hopefully these two innovative products could be launched in China soon. While benefiting patients and families who are troubled by relevant indications in China, they will unveil a new chapter of innovative products' harvest period for the Group.

China is a big country for generic drugs but not a strong one. The quality of generic drugs urgently needs to be improved. With the promotion and implementation of policies such as procurement with volume and consistency evaluation, generic drugs have been developed towards the direction of high quality and controllable costs. While implementing the innovation-driven development strategy as its core, the Group believes that imported generic drugs with approved quality and affordable prices could also benefit the society and the people. We believe that the opportunities for quality generics have always been there. During the Reporting Period, the Group acquired all assets of the six generic injections related to the Chinese market. The Group looks forward to acquiring the Import Drug License and marketing its imported high-quality generic products portfolio in China, which will not only help the Group to seize the market shares, but also relieve the financial burden and bring good news to the Chinese patients with relevant indications.

Forging Ahead and Making Breakthroughs

While deepening the transformation of innovative drug strategy, the Group continued to dig deeply into the differentiated academic characteristics of commercialized products, and to create a broader product market space by means of continuing education for doctors, disease management for patients, academic research support and improvement of diagnosis and management level of various diseases. In 2018, the performances of the existing main products have basically met the expectation, providing strong resources and financial support for the Group's innovative development strategy.

Marketing and promotion is the core for the operation and development of a pharmaceutical company. The construction of innovative promotion network and the creation of innovative promotion mode have also been one of the Group's major focuses in the past year. After more than two decades of development and accumulation, the Group owns the promotion network and platform across China, and the proven product commercialization competence. The highly effective promotion team with strong execution gives the network strong market creativity. The Group is excellent at exploring the differentiated academic advantages of products, and has created market prospects and quality brand image from scratch for many self-promoted products. During the Reporting Period, the Group continued to restructure and upgrade its academic promotion network and enhance the rationality, legality and compliance of the business through refined internal management. At the same time, we actively promoted the construction of the innovative promotion mode, while constantly exploring and upgrading the digital promotion tools, to break down the barriers of time and space under the traditional promotion mode, creating the more diversified academic promotion forms, more refined business data and more standardized promotional staff behaviors, in order to build up a more capable promotional system with a better carrying capacity for the commercialization of innovative products, facilitating the launch and development of the innovative products. In addition, in order to adapt to the business pattern changes of prescription outflow caused by policies such as procurement with volume, drug sales proportion control, limited prescription of national reimbursed drugs, and hierarchical diagnosis and treatment, the Group reorganized and strengthened the extension arrangement of its retail channel according to the product characteristics. We firmly believe that the promotion system which treats professional academic promotion as the core, and continues to upgrade and breakthrough according to the external environment, is the most suitable for the development trend of China's pharmaceutical market.

Looking ahead, the medical and pharmaceutical industry in China will usher in a more radical structural adjustment. The implementation of procurement with volume will bring negative impacts on the entire pharmaceutical industry in the short-term, however, it will promote the transformation of the China's pharmaceutical industry to be innovation-oriented in the long run. The Group believes that the sustainable R&D capability and rich R&D pipeline are the prerequisites for pharmaceutical companies to capture the future market, and will continue to focus on innovative product research and development and make more efforts in expanding its professional marketing network, to support its sustainable growth. CMS will adhere to its values of "Value Creation for Customers, Global Reach for Innovation, Dedication and Perseverance, Ethics and Integrity, Professionalism and Entrepreneurship"!

Chairman
Lam Kong
Hong Kong, China
18 March 2019

Business Review

The Company is pleased to announce that for the year ended 31 December 2018, the Group recorded a turnover of RMB 5,433.4 million (2017: RMB 5,348.8 million), representing an increase of 1.6% over the same period last year; excluding the effect of the "two-invoice system", the turnover would have been up 10.0% to RMB 6,134.5 million (2017: RMB 5,578.6 million). Profit for the year reached RMB 1,844.6 million (2017: RMB 1,669.9 million), up 10.5% from the corresponding period last year. The basic earnings per share was RMB 0.7441 (2017: RMB 0.6734), representing an increase of 10.5% over the same period last year.

2018 is a year in which the Chinese pharmaceutical industry has undergone the major revolution and the structure of the pharmaceutical industry has been geared to the international standards in acceleration. The implementation and promotion of various policies, such as the national medical insurance spending control, procurement with volume, expansion of National Essential Drugs List ("NEDL"), consistency evaluation, the control of the weight of drug sales, and hierarchical diagnosis and treatment management, have far-reaching impacts on the entire pharmaceutical industry. Among them, the implementation of "Procurement with Volume in 11 Cities" highlighted the country's determination to further reduce the drug prices. At the same time, in terms of promoting the development of innovative drugs, from June 2018, the China National Drug Administration was elected as a member of the Management Committee of the ICH (International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use) to various attention attracting policies, such as the acquiescence system of the clinical trials application, acceleration in review and approval for overseas launched clinically urgently-needed new drugs, and the acceptance of overseas clinical trial data, have been continuously introduced, it is indicated that the market of innovative drugs has been booming in China. During the Reporting Period, the Group actively faced with the opportunities and challenges brought by the industry restructure. On the one hand, the Group has been consistently seeking for overseas cooperations and opportunities, speeding up the arrangement and development of innovative products, in order to provide sustainable driving force for the Group's growth in the long-term; on the other hand, grasping the dividend window for quality generic drugs, the Group has proactively expanded the arrangement path of the overseas quality generics. At the same time, the Group continued to focus on the differentiation promotion based on the advantages of existing products to stabilize the core market, and speed up the penetration of network and expansion of retail market. At the same time, through the digital marketing management system, the Group has consistently upgraded the carrying capacity of existing network to further improve the commercialization capacity for the products, aiming to maintain the sustainable growth. During the Reporting Period, the Group achieved the steady growth.

I. Driving Force for the Future Development

During the Reporting Period, after making a detailed assessment of the situations, the Group determined the innovative research and development as its core strategic path. At the same time, the Group strengthened the commercialization development of overseas launched products in China, and continued to seek for the development of launched products in China, aiming to provide impetus for the sustainable development of the Group's performance. With the innovative research and development as its core strategy, the Group has the capability to facilitate the whole process for innovative products from the early arrangement in the research stage, customization of marketing strategy proposal before launching, to the commercialization in the Chinese market. During the Reporting Period, by utilizing the established overseas resources and reputation, the Group invested in the equities of overseas pharmaceutical R&D companies with the ability to do the research and development in the specialized field, and expanded different research areas by utilizing their rich experiences within pharmaceutical R&D industry and R&D teams with working experiences in multinational pharmaceutical companies, to make arrangement for the innovative products portfolio multi-dimensionally. In addition, for the commercialization development of overseas launched products in China, the Group officially opened a new chapter of the overseas high quality generics arrangement. By taking the advantages of the pharmaceutical technique and high quality standards of overseas matured pharmaceutical companies, the Group expected to directly introduce the overseas generic drugs with proven quality and affordable price to the domestic market with a relatively light-asset mode, aiming to earn a place in Chinese generics competition and create the incremental market. In addition, closely following the development trend of the industry, the Group continued to seek for the domestically launched products which were suitable for its development.

1. Innovative Research and Development

The Group is fully aware that pharmaceutical companies are empowered by innovative research and development, and has determined to accelerate the pace of innovative research and development by the combination of collaborative R&D and in-house R&D.

Collaborative R&D

During the Reporting Period, the Group acquired seven innovative patented products from overseas R&D companies with R&D capabilities in specific fields from the U.S., the U.K., France, Switzerland and Israel through equity investment and rights purchase, which expanded the number of the Group's innovative patented products (human clinical trial is ongoing/completed) to nine.

Equity Investment

PoNS (Portable Neurostimulation Device)

A&B (HK) Company Limited ("A&B"), wholly owned by Mr. Lam Kong (a controlling shareholder of the Company, as such term is defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), made an equity investment in Helius Medical Technologies Inc ("Helius"), a U.S. neurotech company focused on neurological wellness, and acquired the assets related to portable neurostimulation device PoNS for the China market (HK SAR, Macau SAR and Taiwan incl.). In August 2018, the Group through its wholly-owned subsidiary entered into a framework asset transfer agreement with A&B relating to PoNS. The Group has agreed to acquire from A&B all assets related to the products in China (HK SAR, Macau SAR and Taiwan incl.). The Group's wholly-owned subsidiary and A&B will further negotiate and agree on the terms of the transaction at a later stage prior to the launch of the product in China. The parties expect that the consideration for the transaction will be calculated with reference to the net sales of the product in the China market.

As a class II medical device, PoNS is the only tongue delivered stimulator which stimulates the cranial nerves by acting on the tongue. Combined with exercise training, PoNS is being developed for the adjuvant treatment of balance disorders in patients with traumatic brain injury (TBI), stroke, cerebral palsy, etc. PoNS is a patented product. The invention patents, protecting the product equipment, have entered into the Chinese national phase via PCT international application, which will expire in 2035, if granted. Meanwhile, the product has design patents in China, which will expire in 2025. Helius has submitted the request to the U.S. Food and Drug Administration (FDA) for de novo classification and 510(k) clearance of the PoNS device for the treatment of chronic balance deficit due to mild- to moderate- TBI in September 2018, and the wholly owned subsidiary of Helius has received authorization from Health Canada to market PoNS in October 2018. The Group has been working on the relevant preparations of the registration and application and other related work for PoNS to launch in China. In China, there are more than 1.3 million people suffering from accidental injuries each year due to traffic accidents, which is the most common cause of TBI (accounts for 54% of TBI causes), and there is a large unmet treatment need for rehabilitation of TBI prognostic balance disorders. However, no drugs or methods are approved to solve this treatment difficulty in domestic and overseas currently. PoNS will provide patients with a new treatment mode to improve the balance disorders once approved.

NRL-1 (Intranasal Diazepam)

A&B, wholly owned by Mr. Lam Kong, a controlling shareholder of the Company, made an equity investment in Neurelis, Inc. ("Neurelis"), a U.S. specialty pharmaceutical company focused on central nervous system innovative therapies, and acquired the assets related to the pharmaceutical preparation, formulation, dosage form, or delivery vehicle, containing or comprising NRL-1 (intranasal diazepam) etc. and/or line extensions for the China market (HK SAR, Macau SAR and Taiwan incl.) from an entity. In August 2018, the Group through its wholly-owned subsidiary entered into a framework asset transfer agreement with A&B relating to NRL-1. The Group has agreed to acquire from A&B all assets related to the products in China (HK SAR, Macau SAR and Taiwan incl.). The Group's wholly-owned subsidiary and A&B will further negotiate and agree on the terms of the transaction at a later stage prior to the launch of the product in China. The parties expect that the consideration for the transaction will be calculated with reference to the net sales of the product in China. In November 2018, the Group made an equity investment in Neurelis through its wholly-owned subsidiary.

NRL-1 is a proprietary formulation of diazepam, delivered via a nasal formulation in a spray, being developed for the management of pediatric and adult patients who require intermittent use of diazepam to control bouts of increased seizure activity (also known as acute repetitive or cluster seizures). NRL-1's formulation incorporates the unique combination of a Vitamin E-based solvent and Intravail® absorption enhancement with the goal of obtaining unparalleled absorption, tolerability, and reliability in a nasal formulation. Compared with intravenous diazepam, the product shows 96% absolute bioavailability with low variability, and provides a treatment option which is more convenient and can be applied anytime and anywhere in patients. In addition, simple and rapid administration can shorten the duration of epileptic seizures and lead to better treatment outcomes for patients. In September 2018, Neurelis has submitted a New Drug Application (NDA) with U.S. FDA. The Group has been working on the relevant preparations of the registration and application and other related work for NRL-1 to launch in China. According to the estimation based on domestic epidemiological data, there are about 6 million active epilepsy patients in China, and only about 2 million patients with epilepsy who have received regular treatment, of which 20%-30% (about 0.4-0.6 million) are still out of effective control and are at risk of repetitive seizures. Once approved in China, NRL-1 will certainly become a long-term prepared and essential medicine for patients with acute repetitive seizures, and the market prospects are promising.

BB2603 (Terbinafine-nano)

In August 2018, the Group through its wholly-owned subsidiary made an equity investment in Blueberry Therapeutics Limited ("Blueberry Therapeutics"), a U.K. drug discovery and development company focused on development of innovative nanomedicines, and acquired all related assets to the leading product BB2603 (terbinafine-nano) in China (HK SAR, Macau SAR & Taiwan incl.), Republic of Korea, Democratic People's Republic of Korea and Mongolia.

BB2603 is a novel cutaneous spray of terbinafine hydrochloride with nanotechnology developed for the treatment of onychomycosis and tinea pedis. BB2603 aims to demonstrate equivalent efficacy and treatment duration but at a dose which is several thousand-fold lower than documented for oral terbinafine. In addition, for patients who are not suitable or in poor compliance with oral administration, BB2603 provides a better safety option. Two formulation patents for BB2603 have been applied in China with terms up to the year 2034 and 2036 if granted. BB2603 has completed its Phase I/II clinical trial in Germany, and Bluberry Therapeutics will initiate a large Phase IIb dose finding efficacy study for BB2603 in onychomycosis. Onychomycosis and tinea pedis are very common diseases with a high recurrence rate in China, the current topical drugs are difficult to penetrate nails resulting in a complete cure rate less than 20% of onychomycosis. BB2603 will have broad market prospects once approved.

ACT017 (Antiplatelet Humanized Antibody Fragment)

In July 2018, the Group through its wholly-owned subsidiary made an equity investment in Acticor Biotech, a French clinical-stage biotechnology company which focused on innovative treatment in the therapy of acute thrombotic diseases, and acquired all assets related to ACT017 (antiplatelet humanized antibody fragment) and any follow-up products developed on the basis of the same compound in China (HK SAR, Macau SAR and Taiwan incl.) and other designated Asian countries (Japan, India and Western Asia countries excl.).

ACT017, a biological agent, is a high affinity humanized antibody fragment (Fab) directed against the platelet glycoprotein VI (GPVI), and is being developed for the treatment of the acute phase of ischemic stroke. Though thrombolytic therapy is the first treatment choice recommended by various guidelines all over the world, it still has problems such as short treatment time window, low rate of vascular recanalization, various contraindications, increasing risk of bleeding. Furthermore, current antiplatelet agents also have the disadvantage of increasing the risk of bleeding. Previous studies have shown that ACT017 can inhibit the collagen-induced platelet aggregation without increasing the risk of bleeding, which gives the candidate potential to increase the efficacy and safety profile in the treatment combined with thrombolysis therapy. Meanwhile, ACT017 is administered intravenously which ensures a rapid drug action. Therefore, when compared with existing oral antiplatelet drugs, ACT017 is more suitable to be used for in-hospital emergency treatment of ischemic stroke. The substance patent of ACT017 has entered into the Chinese national phase via PCT international application, which will expire in 2036, if granted. The phase I clinical trial of ACT017 has been completed in Europe, and the results showed that the primary endpoint was achieved. The phase I/II clinical trial of ACT017 is undergoing in Europe. It is estimated that nearly 2 million new strokes occur every year in China, resulting in approximately 1.2-1.6 million new cases annually. Ischemic stroke is characterized by high morbidity, disability and mortality. ACT017 has the potential to overcome the longstanding safety concerns about existing drugs in stroke and other serious vascular emergency situations and would become a first-class antithrombotic agent.

VXM01 (Oral T-cell Immunotherapy)

In September 2018, the Group through its wholly-owned subsidiary made an equity investment in VAXIMM AG ("VAXIMM"), a Swiss/German biotech company which focused on Oral T-cell immunotherapies for patients suffering from cancer, and gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize the current products portfolio (the current leading product is VXM01) and line extension as well as designated products and line extension that will be solely owned and under the control of VAXIMM in China (HK SAR, Macau SAR and Taiwan incl.) and other designated Asian countries (Japan, India and Western Asia countries excl.).

VXM01 is an oral T-cell immunotherapy mainly being developed to treat patients with recurrent glioblastoma (GBM) currently. Oral administration gives VXM01 a high patient compliance. After several prime doses, VXM01 will evoke an antigen-specific immune response. VXM01 appeared to be safe and well tolerated. The phase I clinical trial of VXM01 has been completed in Europe and a phase I/II clinical trial evaluating the safety and efficacy of VXM01 in combination with Avelumab in patients with recurrent GBM is undergoing. The production process patent of VXM01 has been granted in China, which will expire in 2032. In addition, two other method patents which have entered into the Chinese national phase and have an expected expiry of up to 2036, if granted. GBM is one of the most aggressive primary brain tumors and has the characteristics of high recurrence rate and low overall survival rate. VXM01 has the potential to be an innovative biological agent that improves the survival of patients with recurrent GBM.

Traumakine® (Recombinant Human Interferon beta-1a Intravenous Lyophilized Preparation)

In May 2018, Faron Pharmaceuticals Ltd. announced the top-line data for Traumakine®'s Pan-European Phase III INTEREST trial. Traumakine® is the biological agent used for the treatment of acute respiratory distress syndrome. The INTEREST study did not meet the Day 28 (D28) primary efficacy composite endpoint of ventilator free days and survival rate with Traumakine® treatment. The Group believes that, under the current circumstances, Traumakine® would not be able to obtain the necessary regulatory approval for it to be marketed based on the above results. While the results of this clinical trial were disappointing, the Group does not believe that they would have any material impact on the financial performance of the Group.

Rights Purchase

CF101 & CF102 (Selective Agonists to the A3 Adenosine Receptor)

In August 2018, the Group through its wholly-owned subsidiary signed a License, Collaboration and Distribution Agreement with Can-Fite BioPharma Ltd. ("Can-Fite BioPharma"), an Israel clinical-stage biopharmaceutical company, and gained exclusive, perpetual, transferable, sub-licensable rights to develop, register, manufacture and commercialize its current products selective agonists to the A3 adenosine receptor (A3AR) CF101 and CF102 in China (HK SAR, Macau SAR and Taiwan incl.).

CF101 is an oral product developed for the treatment of autoimmune-inflammatory diseases including rheumatoid arthritis (RA) and psoriasis. Currently, MTX is recommended by guidelines for the treatment of RA, and it is also the most cost-effective drug for the treatment of plaque psoriasis, but there are many adverse reactions. CF101 will be possible to replace oral MTX as the first-line treatment for RA and will provide a new oral treatment for patients with plaque psoriasis. Phase III clinical trials of CF101 in the treatment of RA and psoriasis have been ongoing. In China, about 5 million people suffer from RA and approximately 6.5 million people suffer from psoriasis. CF101 will provide a new treatment for patients with RA and psoriasis once approved, and will have a good market prospect.

CF102 is developed for a second line treatment for hepatocellular carcinoma (HCC), and a treatment for non-alcoholic fatty liver disease (NAFLD) /non-alcoholic steatohepatitis (NASH). Phase II clinical trials of CF102 in the treatment of HCC and NAFLD/NASH have been ongoing. In HCC treatment, traditional cytotoxic drugs including monotherapy or combination therapy are not highly effective, but with severe toxicity and side effects, so their repeatability is poor; the long-term use of the targeted agents such as sorafenib may cause drug resistance, reduce the efficiency of clinical treatment, and shorten the median time to progression and median survival time. CF102 is used in patients with disease progression after sorafenib treatment, providing patients with a new treatment option. Primary liver cancer is currently the fourth common malignant tumor in China and the third leading cause of death by cancer. HCC accounts for 85% to more than 90% of primary liver cancer. In addition, the prevalence of NAFLD in China has surpassed that in developed countries such as Europe and the U.S., posing a serious threat to national health and social development. There is no evidence of evidence-based medicine for the treatments of NAFLD/NASH so far. Once CF102 has been confirmed by clinical trials, it will provide patients with a new treatment option.

In- house R&D

CMS024 (Tyroserleutide)

The Group has taken the first step towards In-house R&D since 1998. CMS024 (Tyroserleutide), used to treat primary liver cancer, is a National Class One New Drug researched and developed by the Group. Though the Phase III clinical trial unblinded on February 2014 failed to achieve the expected results, the subgroup with "no tumor thrombosis" in the hepatic portal vein branches demonstrated a favorable trend during the clinical trial, the Group conducted a half-year "follow-up study" and achieved significant results. According to statistical data from the study, a statistical significance in survival time between the treatment group and the placebo group of the subgroup had been observed, indicating that CMS024 could prolong the survival time of liver cancer patients with "no tumor thrombosis" in the hepatic portal vein branches. Based on these positive results, the Group has decided to carry out a new extended phase III clinical trial for CMS024. During the Reporting Period, the extended phase III clinical trial of Tyroserleutide was still in the patient recruitment process. The costs of this clinical trial will continue to be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), and the Group will pay 13% of the product's revenue to Kangzhe R&D as royalty fees after the successful commercialization of the product. If Tyroserleutide is successfully launched into the market, it will not only have great market potential in China, but also have a significant impact on human health.

The development process of innovative patented products (human clinical trial is ongoing/ completed):

Acquisition Method	R&D Company	Product	Indication	Ownership Territory	Phase I	Phase II	Phase III	FDA/EMA* Marketing Approval Application
Equity Investment	Helius Medical Technologies	PoNS (Medical Device)	Physical Adjuvant Therapy for Balance Disorders Related Symptoms due to Mild to Moderate Traumatic Brain Injury (TBI)	China (HK SAR, Macau SAR& Taiwan incl.)				
	Neurelis, Inc	NRL-1	Acute Repetitive Seizures	China (HK SAR, Macau SAR& Taiwan incl.)				
In-house R&D	In-house R&D	CMS024	Primary Liver Cancer	China (HK SAR, Macau SAR& Taiwan incl.)				
Rights Purchase	Can-Fite BioPharma	CF101	Rheumatoid Arthritis (RA)	China (HK SAR, Macau SAR& Taiwan incl.)				
			Psoriasis					
		CF102	Hepatocellular Carcinoma (HCC)					
			Non-Alcoholic Fatty Liver Disease (NAFLD) / Non-Alcoholic Steatohepatitis (NASH)					
Equity Investment	Destiny Pharma	XF-73	Prevention of Post-surgical Staphylococcal Infections	China (HK SAR, Macau SAR& Taiwan incl.) and other Asian Countries (Japan excl.)				
	Blueberry Therapeutics	BB2603	Onychomycosis and Tinea Pedis	China (HK SAR, Macau SAR& Taiwan incl.), Korea, North Korea& Mongolia				
	Acticor Biotech	ACT017 (Biological Agent)	Acute Phase of Ischemic Stroke	China (HK SAR, Macau SAR& Taiwan incl.) and other designated Asian Countries (Japan etc. excl.)				
	VAXIMM AG	VXM01 (Biological Agent)	Recurrent Glioblastoma (GBM)	China (HK SAR, Macau SAR& Taiwan incl.) and other designated Asian Countries (Japan etc. excl.)				

*European Medicines Agency ("EMA")

2. Commercialization Development of Overseas Launched Products in China

The Group acquired all assets of overseas launched products related to the China market mainly through asset purchase, and applied for the Import Drug License ("IDL") for products according to the requirements of the National Medical Products Administration ("NMPA").

Generics Portfolio

In July 2018, the Group through its wholly-owned subsidiary entered into an Asset Purchase Agreement with Venus Pharma GmbH ("Venus Pharma") from Germany, a wholly owned subsidiary of Venus Remedies Limited and acquired all assets of Venus Pharma's current product portfolio related to the market in China (HK SAR, Macau SAR and Taiwan incl.).

The transaction involved six injections, all of which are included in the National Reimbursement Drug List ("NRDL"). The four anti-tumor products are Gemcitabine Hydrochloride for Injection, Docetaxel for Injection, Pemetrexed disodium for Injection and Bortezomib for Injection, and are all commonly used drugs for clinical anti-tumor therapy and recommended by guidelines; the two antibiotic products are Meropenem for Injection and Imipenem-Cilastatin for Injection, with a wide range of antibacterial effects and being used to treat a variety of infections. The six generic injections were manufactured by Venus Remedies Limited. At present, the material preparation to apply for the IDL for the generics portfolio has been carried out in China. Specific product information is summarized in the following table:

	Product	Category	Indication
Anti-tumor Products	Gemcitabine Hydrochloride for Injection	Pyrimidine Analogue	Non-small cell lung cancer, pancreatic cancer and breast cancer
	Docetaxel Injection	Taxanes	Breast cancer, non-small cell lung cancer, prostate cancer and gastric cancer
	Pemetrexed disodium for Injection	Folic Acid Analogue	Non-small cell lung cancer and malignant pleural mesothelioma
	Bortezomib for Injection	Proteasome Inhibitor	Multiple Myeloma and mantle cell lymphoma
Antibiotic Products	Meropenem for Injection	Carbapenems	Pneumonia, urinary tract infection, gynecologic infections, skin and soft tissue infection etc.
	Imipenem-Cilastatin for Injection	Carbapenems	Intra-abdominal infection, lower respiratory infection, gynecologic infections and septicemia etc.

Other Overseas Products -- Products undergoing application process for Import Drug License

During the Reporting Period, the Group had three products undergoing the application process for IDL. They will contribute to the Group's revenue after they are officially issued an IDL by the NMPA. Key information about these products is listed below:

Product	Indication	Manufacturer	NMPA Pending Number	Registration Process
Budenofalk	For the treatment of Crohn's disease	Dr. Falk Pharma GmbH (Germany)	Material Preparation	Material Preparation
Ze 339	For the treatment of allergic rhinitis	Zeller Medical AG (Switzerland)	JXZL1500004	CDE Review
Succinylated Gelatin Injection	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation	Material Preparation

For more information on imported drug registration of the Group's products, please refer to the NMPA website (http://www.nmpa.gov.cn).

3. Development of Launched Products in China

In June 2018, based on the non-legally binding strategic cooperation memorandum previously reached, the Group through its wholly owned subsidiary signed a Business Promotion Delegation Agreement with Asahi Kasei Pharma Corporation ("Asahi Kasei Pharma"), a research-based health care innovator, for its product Elcitonin (Elcatonin Injection). According to the agreement, the Group gained exclusive promotion rights of the product in China (HK SAR, Macau SAR & Taiwan excl.). The promotion activities started from August 2018.

This strategic cooperation with Asahi Kasei Pharma was based on the trust of Asahi Kasei Pharma in the Group and the affirmation of the previous cooperation, in which the Group took a solid step in seeking and achieving strategic cooperation with its existing partners. In the future, the Group will actively seek to achieve a long-term and win-win cooperation with its existing partners, so as to work together to accumulate power for the development of the enterprise.

II. Existing Product Development

Main Products

Plendil (Felodipine Sustained Release Tablets)

The company owns the 20-year exclusive license for the commercialization of Plendil in China（HK SAR, Macau SAR & Taiwan excl.）. Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司). Plendil is used to treat hypertension and stable angina pectoris and is in the NRDL. It was included in the NEDL in 2018. Plendil is the sustained release formulation of Felodipine, which smoothly controls blood pressure with low occurrence rates of side effects. In 2018, the latest edition of "Chinese Guidelines for the Prevention and Treatment of Hypertension 2018 Revised" was released and continuously granted Felodipine the relevant recommendation based on the previous version (2010). During the Reporting Period, Plendil recorded a revenue of RMB 1,123.1 million, a decrease of 12.9% compared with the same period last year. If excluding the effect of the "two-invoice system", Plendil's revenue would increase by 5.2% to RMB 1,450.7 million compared with the same period last year, accounting for 23.6% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group adhered to use the differentiation promotion strategy to stabilize the core market, strengthening the brand image of " Choice of Antihypertensive in China with Cardiovascular and Cerebrovascular Protection", and continually penetrated the lower-tier market, bringing the normative diagnosis and treatment of high blood pressure to the lower-tier market. In addition, nationwide academic lectures of different directions were conducted to further enhance the linkage of national academic communication. Meanwhile, combined with Plendil's characteristics, the Group has started to promote and enhance the construction of retail team steadily, focusing on development and expansion of the retail market. For the year ended 31 December 2018, sales of Plendil covered around 28,000 hospitals and medical institutions throughout China.

Ursofalk (Ursodeoxycholic Acid Capsules)

Ursofalk is manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Dr. Falk Pharma GmbH ("Falk"), Germany. The product is used for the treatment of cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis and is in the NRDL. Based on IMS data in 2018, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranks first in sales among digestive products in the Chinese cholagogue market. In 2018, Ursodeoxycholic was recommended by "2018 the British Society of Gastroenterology/UKPBC Primary Biliary Cholangitis Treatment and Management Guidelines". During the Reporting Period, Ursofalk recorded a revenue of RMB 1,147.0 million, an increase of 19.6% compared with the same period last year. Ursofalk's revenue accounted for 18.7% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, benefiting from various recommendations of multiple guidelines and clinical papers, Ursofalk continued to be recognized by experts. In addition, on the basis of the steady promotion in several major departments such as traditional infection, hepatopathy and digestion, the Group actively promoted the use of Ursofalk in the treatment of drug-induced liver injury and surgery. The Group found a new growth trigger for Ursofalk with an integrated promotion with the Group's other products under digestive line. For the year ended 31 December 2018, sales of Ursofalk covered around 10,900 hospitals and medical institutions throughout China.

Deanxit (Flupentixol and Melitracen Tablets)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild to moderate depression, anxiety and psychosomatic affections, and is in the NRDL. Based on IMS data in 2018, Deanxit ranks first in the market share of antidepressant drugs in China. The Flupentixol and Melitracen was recommended by "Guidelines for the Diagnosis and Treatment of Common Diseases of the Nervous System with Depression" in 2018. During the Reporting Period, Deanxit recorded a revenue of RMB 1,013.4 million, an increase of 6.8% compared with the same period last year. Deanxit's revenue accounted for 16.5% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group constructed and optimized the existing promotion platform, solidified the traditional departments while strengthening the maintenance of key basic departments. In addition, the Group actively expand the community and county-level market. For the year ended 31 December 2018, sales of Deanxit covered around 23,000 hospitals and medical institutions throughout China.

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holdings Co., Ltd. ("Tibet Pharmaceutical", an associate company of the Group) in which the Group holds 36.83% of the share, is a National Class One biological agent used to treat acute heart failure. It is also the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently available in the China market. XinHuoSu is included in the NRDL. Recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline (2010)" in China and "2018 Guidelines for the Diagnosis and Treatment of Heart Failure in China" in 2018, XinHuoSu has gradually become the new generation medication for acute heart failure. During the Reporting Period, XinHuoSu recorded a revenue of RMB 334.9 million, a decrease of 18.7% compared with the same period last year. If excluding the effect of the "two-invoices system", XinHuoSu's revenue would increase by 36.0% to RMB 886.6 million compared with the same period last year, accounting for 14.5% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group continued to expand and penetrate the core expert network of the cardiology department. Meanwhile, through establishing and optimizing academic platforms related to the severe cases of cardiothoracic surgery, emergency medical care and geriatric department, the Group further enhanced the academic influence and the brand image of the product. Moreover, the comprehensive implementation of the national medical insurance, and policies issued by many provinces stating that XinHuoSu and other negotiated products are eliminated from the control of drug sales weight of the total revenue for hospitals, boosted the growth of XinHuoSu. For the year ended 31 December 2018, sales of XinHuoSu covered around 2,300 hospitals and medical institutions throughout China.

Salofalk (Mesalazine)

Dosage forms of suppositories and enemas of Salofalk are manufactured by Vifor AG Zweigniederlassung Medichmie Ettingen, Switzerland, which is the entrusted manufacturer of Falk, Germany; while enteric-coated tablets of Salofalk are manufactured by Losan Pharma GmbH, Germany, which is the entrusted manufacturer of Falk, Germany. Salofalk is mainly used to treat Ulcerative Colitis, including the treatment of acute exacerbations and also to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease. Salofalk is in the NRDL and was also included in the NEDL in 2018. It is the Mesalazine with the widest dosage forms in China market. According to the "Consensus on the Diagnosis and Treatment of Inflammatory Bowel Disease (2018)", Mesalazine is still recommended as the first-line drug for the treatment of Ulcerative Colitis. During the Reporting Period, Salofalk recorded a revenue of RMB 340.9 million, an increase of 15.0% compared with the same period last year. Salofalk's revenue accounted for 5.6% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group continued to solidify the digestive core market while penetrating the expert network to expand the brand influence. Moreover, the Group found a new market growth trigger for Salofalk by exploring and developing in core fringe markets as well as enhancing the treatment level of relevant indications. For the year ended 31 December 2018, sales of Salofalk covered around 4,000 hospitals and medical institutions throughout China.

Bioflor (Saccharomyces Boulardii Sachets)

Manufactured by Biocodex of France, Bioflor is a probiotic agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the global leading probiotics preparations currently. "The Chinese Clinical Practice Guidelines for Children with Acute Infectious Diarrhea" published in 2016 gave Bioflor the highest level of recommendations. In 2017, the World Gastroenterology Organization ("WGO") updated the "Probiotics and Prebiotics Guideline" and the authoritative recommendation of Bioflor for relevant indications remained as in the previous version (2011). During the Reporting Period, Bioflor recorded a revenue of RMB 262.7 million, a decrease of 0.2% compared with the same period last year. Bioflor's revenue accounted for 4.3% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, adhering to the academic-oriented differentiation promotion strategy, the Group cooperated with Biocodex to conduct various academic forums and conference tours, and organized product-related re-education activities in various regions, in order to explore the domestic evidence of evidence-based medicine. Meanwhile, with solidifying the pediatric field, the Group actively organized promotional activities with other products under the digestive line to reinforce the brand image of Bioflor in digestive field. For the year ended 31 December 2018, sales of Bioflor covered around 3,400 hospitals and medical institutions throughout China.

Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)

The Group owns Augentropfen Stulln Mono Eye Drops' related assets for the China (HK SAR and Macau SAR incl.) market, and has entrusted the manufacture to Pharma Stulln GambH of Germany. Augentropfen Stulln Mono Eye Drops is used to treat senile macula degeneration and all forms of asthenopia. It is the only eye drops in Chinese market for the treatment of macula degeneration and the representative drug for asthenopia, and it is preservative-free. During the Reporting Period, Augentropfen Stulln Mono Eye Drops recorded a revenue of RMB 225.4 million, and increase of 3.6% compared with the same period last year. Augentropfen Stulln Mono Eye Drops' revenue accounted for 3.7% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, through various levels of the ophthalmic academic conference, academic re-education platforms and digital marketing, the Group continued to solidify the promotional work in the related fields of ocular fundus disease and reinforce the promotional work in the related fields of asthenopia to further expand the brand influence. For the year ended 31 December 2018, sales of Augentropfen Stulln Mono Eye Drops covered around 7,700 hospitals and medical institutions throughout China.

Hirudoid (Mucopolysaccharide Polysulfate Cream)

The Group owns Hirudoid's related assets for the China (HK SAR, Macau SAR and Taiwan excl.) market, and has entrusted the manufacture of the product to Mobilat Produktions GmbH (Germany). Hirudoid is used in the treatment of blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression, and the drug is proven to have broad effects and high safety. The active ingredient of Hirudoid is mucopolysaccharide polysulfate, which was recommended by the first edition of "Chinese Expert Consensus on Diagnosis and Treatment of Senile Skin Pruritus" in 2018. During the Reporting Period, Hirudoid recorded a revenue of RMB 149.3 million, an increase of 15.8% compared with the same period last year. Hirudoid's revenue accounted for 2.4% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group further solidified its national dermatological experts network and carried out refined promotion in dermatological indications. For the year ended 31 December 2018, sales of Hirudoid covered around 7,400 hospitals and medical institutions throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns Combizym's related assets for the China (HK SAR, Macau SAR and Taiwan incl.) market and other designated countries or areas, and has entrusted the manufacture of the product to Nordmark Arzneimittel GmbH & Co. KG (Germany). The main ingredients of Combizym are extracts of pancreatin and aspergillus oryzae enzymes. The product is used for treating dyspepsia caused by a decrease in digestive enzymes and is in the NRDL. In 2018, Combizym was recommended by the "2018 Standard Practice of Diagnostic and Treatment for Pancreatic Exocrine Insufficiency". During the Reporting Period, Combizym recorded a revenue of RMB 86.5 million, an increase of 27.4% compared with same period last year. Combizym's revenue accounted for 1.4% of the Group's revenue excluding the effect of the "two-invoice system".

During the Reporting Period, the Group determined the promotion strategy focusing on the core indications through deeply exploring and comprehending the products' indications. Meanwhile, benefiting from various recommendations of multiple guidelines and clinical papers, the evidence of evidence-based medicine of the product was constantly enriched and updated. For the year ended 31 December 2018, sales of Combizym covered around 1,600 hospitals and medical institutions throughout China.

The related information of the rest of the products sold and promoted by the Group is listed below:

Product	Chemical Name	Main Indication	Revenue		Revenue excl. the effect of "two-invoice system"		
			2018 (RMB million)	Y-o-Y Change	2018 (RMB million)	Y-o-Y Change	As a % of Group's Revenue
DanShenTong		Antisepsis and anti-inflammation	146.5	-3.5%	146.5	-3.5%	2.4%
YiNuoShu	Ambroxol hydrochloride Injection	The expectorant product used for respiratory diseases	218.8	37.5%	87.9	-12.7%	1.4%
NuoDiKang		Boosting vital energy, activating blood circulation, freeing blood vessels and alleviating pain	29.0	-71.2%	77.2	-42.8%	1.3%
XiDaKang	Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate	Hypoproteinemia and kakotrophy, systemic failure and poor wound healing	194.6	0.0%	49.5	-16.0%	0.8%
GanFuLe		Primary liver cancer, cirrhosis and liver fibrosis	43.3	6.8%	43.3	6.8%	0.7%
Imdur	Isosorbide Mononitrate Sustained Release Tablets	Long-term treatment of coronary artery disease and prophylactic angina pectoris	41.8	4.4%	41.8	4.4%	0.7%
Parlodel	Bromocriptine Mesilate Tablets	Indications of endocrine and nervous system	29.1	6.9%	29.1	6.9%	0.5%
Elcitonin	Elcatonin Injection	Pain associated with osteoporosis	8.2	-	8.2	-	0.1%
Lamisil	Terbinafine Hydrochloride Tablets	Onychomycosis	8.2	-1.5%	8.2	-1.5%	0.1%
YinLianQingGan		Acute hepatitis A and chronic hepatitis B	3.4	-47.2%	1.7	-44.9%	0.0%
Other Products			27.2	-25.5%	78.6	-21.0%	1.3%

III. Network Development

With the gradual implementation of various national medical reform policies, the Group accelerated the strategic planning and upgrade of the academic network. During the Reporting Period, continually expanding the coverage of the academic network, the Group further refined the covered regions, and enhanced the carrying capacity of the network for the promotion of the existing products and the coming innovative products through resource restructuring and optimization. The Group fully encouraged the use of digital marketing tools to accelerate the innovation and upgrade of promotion mode, so as to improve the promotion efficiency of the team. At the same time, with the digital management system providing the data support for internal management and external marketing, the Group created more refined and traceable business data and more standardized employee behavior management. In terms of team management, the Group trained the fresh recruits from the campus and social recruitment and the existing promotional staff classified in various of batches and stages, strengthening all kinds of medical knowledge, drug academic knowledge and compliance awareness of the promotional staff, in order to build up a more professional, compliant and efficient promotional team. For the year ended 31 December 2018, the Group's Direct Network had covered over 53,000 hospitals and medical institutions in China with around 2,800 professional marketing and promotional related staff; the Group had signed agreements with around 520 agencies or third-party sales representatives, and the Agency Network had covered around 11,000 hospitals and medical institutions across the country.

At the same time, the Group proactively promoted the expansion, development and training of the retail team, to steadily promote the arrangement and coverage of the retail business. Through the hierarchical management of chain pharmacies while matching the corresponding resources according to product characteristics, differentiation marketing strategies were adopted to promote the products by categories, in order to continuously dig in the potential of the retail market. In the mean time, the Group constantly improved the analysis management system of retail data and remuneration assessment system, in order to achieve the rapid arrangement and development of key products with retail attributes in the retail network through the flexible internal management.

Subsequent Event

Signing of a License, Collaboration and Distribution Agreement with Midatech Pharma and Making Equity Investment in It

The Group through its wholly-owned subsidiary has signed a License, Collaboration and Distribution Agreement (the "License Agreement") with Midatech Pharma PLC ("Midatech Pharma"). According to the License Agreement, the Group through its wholly-owned subsidiary has gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize Midatech Pharma's current products mainly including MTD201, MTX110 (subject to receipt of consent from Novartis Pharma AG) and any new pharmaceutical products or line extension the intellectual property rights and other rights of which Midatech Pharma controls and which Midatech Pharma or its affiliates have given a codename within three years of the effective date of the License Agreement in China (including Hong Kong SAR, Macau SAR and Taiwan) and certain Southeast Asian countries selected by the Company (including Singapore, Philippines, Malaysia and other countries, subject to confirmation by the Company once a regulatory approval is granted by the U.S. FDA, EMA or by one of the regulatory authorities in one of the UK, France, Germany or Switzerland). At the same time, the Group through its wholly-owned subsidiary has made an equity investment in Midatech Pharma. For more information, please refer to the "Voluntary and Business Update Announcement Signing of a License, Collaboration and Distribution Agreement with Midatech Pharma and Making Equity Investment in It" published on 29 January 2019 and the "Voluntary and Business Update Announcement The License, Collaboration and Distribution Agreement signed with Midatech Pharma Takes Effect and the Equity Investment in It Completes" published on 26 February 2019 by the Company, respectively.

Outlook and Future Development

The pharmaceutical industry in China has undergone years of reform and development, and its industrial structure has been constantly upgraded, bringing numerous opportunities and challenges. With the increase of the aging tendency of the society, the enhancement of people's awareness of health care and the change of disease spectrum, the Group believes that the demand of the pharmaceutical industry is still moving upward, maintaining a positive attitude towards the future prospect of the pharmaceutical industry. With the rich innovative product pipeline, comprehensive academic promotional network, proven Chinese market creativity and product commercialization capability, accumulated resources and good reputation from both domestic and overseas markets, the Group is confident to maintain its steady growth of the performance in the future.

In terms of product arrangement, the Group will mainly invest in equities of overseas R&D companies to constantly arrange the innovative products in the mode of collaborative research, aiming to satisfy China's unmet medical needs. At the same time, actively grasping the dividend window of generic drugs, the Group will seize the market share by means of making arrangement of the high-quality and affordable overseas generic drugs. Meanwhile, the Group will continually solidify the academic advantages of the existing products through the resource integration of existing product lines, aiming to establish a better brand image for the products.

When it comes to the development of marketing and promotional network, on the one hand, the Group will accelerate the penetration of the lower-tier markets in multi-directions and multi-dimensions, aiming to increase the depth of the existing network. At the same time, the Group will further expand the coverage of the Group's network by accelerating the expansion of the existing academic network and retail network. Meanwhile, the existing network will be constantly upgraded and optimized to improve the carrying capacity for the promotion of the coming innovative products.

As a pharmaceutical company with more than two decades of experience in the pharmaceutical industry, the Group has foreseen and constantly witnessed the innovation process of the pharmaceutical industry in China. The Group will continually explore the future driving forces in line with the market trend through the prospective perspective, boosting the sustainable growth of the performance. The Group believes that "no future without endurance, no development without accumulation", with the continuous self-revolution, CMS is bound to blaze a strategic path with quality and sustainability, to creat value for customers, shareholders, society and employees.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements in the Annual Report.

The Group prepared the consolidated financial statements in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

Turnover increased by 1.6% from RMB5,348.8 million for the year ended 31 December 2017 to RMB5,433.4 million for the year ended 31 December 2018. Excluding the effect of the "two-invoice system", turnover increased by 10.0% to RMB6,134.5 million for the year ended 31 December 2018 from RMB5,578.6 million for the year ended 31 December 2017, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 12.6% from RMB3,478.3 million for the year ended 31 December 2017 to RMB3,916.9 million for the year ended 31 December 2018; excluding the effect of the "two-invoice system", gross profit increased by 10.5% to RMB3,616.8 million for the year ended 31 December 2018 from RMB3,272.2 million for the year ended 31 December 2017, primarily reflecting an increase in turnover. Gross profit margin increased by 7.1 percentage points to 72.1% for the year ended 31 December 2018 from 65.0% for the year ended 31 December 2017; excluding the effect of the "two-invoice system", gross profit margin increased by 0.3 percentage point to 59.0% for the year ended 31 December 2018 from 58.7% for the year ended 31 December 2017, mainly due to a change in sales weight of products.

Selling Expenses

Selling expenses increased by 21.0% from RMB1,382.2 million for the year ended 31 December 2017 to RMB1,672.6 million for the year ended 31 December 2018; selling expenses as a percentage of turnover increased by 5.0 percentage points to 30.8% for the year ended 31 December 2018 from 25.8% for the year ended 31 December 2017. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover increased by 1.3 percentage points to 22.4% for the year ended 31 December 2018 from 21.1% for the year ended 31 December 2017, primarily reflecting an increase in human cost for providing a competitive salaries to the staff of the Group.

Administrative Expenses

Administrative expenses increased by 9.6 % from RMB222.0 million for the year ended 31 December 2017 to RMB243.3 million for the year ended 31 December 2018; administrative expenses as a percentage of turnover increased by 0.4 percentage point to 4.5% for the year ended 31 December 2018 from 4.1% for the year ended 31 December 2017. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover for the year ended 31 December 2018 maintained the same as 4.0% for the year ended 31 December 2017, primarily reflecting the Group's effective expenses control.

Other Gains and Losses

Other gains and losses decreased by 90.8% from a loss of RMB61.2 million for the year ended 31 December 2017 to a loss of RMB5.6 million for the year ended 31 December 2018, mainly reflecting a difference in the exchange loss on bank borrowings in foreign currencies.

Share of Result of Associates

Share of result of associates increased by 6.6% from RMB77.7 million for the year ended 31 December 2017 to RMB82.9 million for year ended 31 December 2018, mainly reflecting an increase in shareholding percentage of the associate Tibet Pharmaceutical held by the Group.

Finance Costs

Finance costs decreased by 12.6% from RMB82.3 million for the year ended 31 December 2017 to RMB71.9 million for the year ended 31 December 2018, mainly reflecting an decrease in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 10.5% from RMB1,669.9 million for the year ended 31 December 2017 to RMB1,844.6 million for the year ended 31 December 2018, mainly due to the continuous growth in turnover.

Inventories

Inventories decreased by 5.6% from RMB460.4 million as at 31 December 2017 to RMB434.7 million as at 31 December 2018. Average inventory turnover days increased from 95 days for the year ended 31 December 2017 to 108 days for the year ended 31 December 2018, mainly due to the effect of the "two-invoice system".

Trade Receivables

Trade receivables increased by 28.9% from RMB993.8 million as at 31 December 2017 to RMB1,280.7 million as at 31 December 2018, mainly due to an increase in sales and the impact of conversion of settlement on sales under the "two-invoice system". Average trade receivables turnover days increased to 77 days for the year ended 31 December 2018 from 71 days for the year ended 31 December 2017, mainly due to the effect of the "two-invoice system".

Trade Payables

Trade payables decreased by 18.4% from RMB130.0 million as at 31 December 2017 to RMB106.1 million as at 31 December 2018. Average trade payables turnover days increased to 28 days for the year ended 31 December 2018 from 26 days for the year ended 31 December 2017, mainly due to the effect of the "two-invoice system".

Liquidity and Financial Resources

As at 31 December 2018, the Group's bank balances and cash amounted to RMB815.1 million while readily realizable bank acceptance bills amounted to RMB291.6 million. As at 31 December 2017, the bank balances and cash amounted to RMB855.6 million while readily realizable bank acceptance bills amounted to RMB349.6 million.

As at 31 December 2018, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("EUR"), Great Britain Pound ("GBP"), Swiss Franc("CHF") and Hong Kong Dollars ("HK$").

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash from operating activities	1,754,565	2,071,798
Net cash used in investing activities	(239,689)	(354,099)
Net cash used in financing activities	(1,554,311)	(1,345,062)
Net (decrease) increase in cash and cash equivalent	(39,435)	372,637
Cash and cash equivalent at beginning of the year	855,629	482,451
Effect of foreign exchange rate changes	(1,113)	541
Cash and cash equivalent at end of the year	815,081	855,629

Net cash from operating activities

The Group's net cash generated from operating activities was RMB1,754.6 million for the year ended 31 December 2018 compared with RMB2,071.8 million for the year ended 31 December 2017, a decrease of 15.3% mainly due to the effect of an extension in settlement term on sales under the "two-invoice system".

Net cash used in investing activities

For the year ended 31 December 2018, the Group's net cash used in investing activities was RMB239.7 million compared with RMB354.1 million for the year ended 31 December 2017, a decrease of 32.3% mainly due to a decrease in equity investments and fixed assets expenditures.

Net cash used in financing activities

For the year ended 31 December 2018, the Group's net cash used in financing activities was RMB1,554.3 million compared with RMB1,345.1 million for the year ended 31 December 2017, an increase of 15.6% mainly due to the repayment for part of bank borrowings and an increase in dividend payment during the current year.

Net Current Assets

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current Assets		
Inventories	434,661	460,401
Trade receivables	1,280,702	993,812
Other receivables	438,052	493,580
Tax recoverable	8,296	5,135
Amount due from an associate	169,565	151,023
Bank balances and cash	815,081	855,629
	3,146,357	2,959,580
Current Liabilities		
Trade payables	106,134	130,011
Other payables	281,550	376,815
Bank borrowings	25,000	65,000
Deferred consideration payables	8,847	8,802
Tax payable	129,314	77,516
	550,845	658,144
Net current assets	2,595,512	2,301,436

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, long-term bank loans and other financing means which the Company may from time to time consider appropriate.

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Deposits for acquisition of intangile assets	23,120	-
Purchase of prepaid lease payment	4,997	-
Purchase of property, plant and equipment	33,855	76,624
Capital injection to an associate	-	1,000,000
Purchase of equity instruments	230,953	26,291
	292,925	1,102,915

Capital Structure and Gearing Ratio

The Company reviews the capital structure on a regular basis, and considers the cost of capital and the risks associated with each class of capital, for maximising the return to shareholders of the Company.

The following table shows the Group's debts:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Interest bearing bank borrowings	1,465,195	2,105,048

The Group had bank borrowings of RMB1,465.2 million as at 31 December 2018 (31 December 2017: RMB2,105.0 million). During the year ended 31 December 2018, the Group repaid part of bank borrowings. The details of bank borrowings are set out in note 27 to the consolidated financial statements.

As said above, along with the decrease in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased by 6.8 percentage points to 13.9% as at 31 December 2018 from 20.7% as at 31 December 2017.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 34 to the consolidated financial statements.

The Group is mainly exposed to currency risk of the US$, EUR, GBP, CHF and HK$. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. As at 31 December 2018, the Group had entered into certain foreign currency forward contracts to hedge foreign currency risk, for details please refer to note 30 to the consolidated financial statements.

The Group will closely monitor the interest rate movements so as to mitigate the expected interest rate risk.

Pledge of Assets

As at 31 December 2018, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB77,548,000 and RMB27,151,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

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

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

On 20 June 2017, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower) (the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as original lender, mandated lead arranger and bookrunner and agent) in respect of a US$300,000,000 term loan facility (the "Facility") as been made available to the Borrower for a term of 36 months from the first utilisation date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder of the Company (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii) ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2018, Mr. Lam Kong (directly and indirectly) holds approximately 43.92% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2018, the Group paid an interim dividend for 2018 and a final dividend for 2017 of RMB382.0 million and RMB346.5 million, respectively. For the year ended 31 December 2017, the Group paid an interim dividend for 2017 and a final dividend for 2016 of RMB321.6 million and RMB289.5 million, respectively.

DIRECTOR AND SENIOR MANAGEMENT

Executive Director

Mr. Lam Kong, aged 54, is Chairman, Chief Executive and President of the Group and was appointed as an executive Director on 18 December 2006. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy. Mr. Lam has possessed clinical experience and has had very rich experience in marketing, promotion, sales and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, which was renamed to Guangdong Medical University. Mr. Lam is a member of the Nomination Committee of the Company and sole director of Treasure Sea Limited, the controlling shareholder of the Company.

Mr. Lam is the controlling shareholder of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on page 36 of this annual report.

Mr. Chen Hongbing, aged 52, is Chief Operating Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the operation of the Group's marketing, promotion and sale business and management of product manufacturing. He had acquired about 4 years' public hospital doctor experience as a resident doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He received his bachelor's degree in clinical medicine from Nanjing Medical College in 1990, which was renamed to Nanjing Medical University.

Mr. Chen is sole director of Viewell Limited (a shareholder of the Company) and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 36 of this annual report.

Ms. Chen Yanling, aged 48, is Chief Financial Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's financial management, investor relations, government affairs and administration. She holds an EMBA degree and is a senior accountant with extensive experience in financial management. Ms. Chen was awarded the Third Place of 2018 "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry" by the Institutional Investor magazine in June 2018. From 2012 to 2017, Ms. Chen was awarded the First place of the prize for six consecutive times.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 36 of this annual report.

Independent Non-Executive Directors

Mr. Cheung Kam Shing, Terry, aged 56, was appointed as an independent non-executive Director of the Company on 18 August 2010. Mr. Cheung has more than 30 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. The companies he worked for after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as Managing Director at Culturecom Holdings Limited (a company listed on the Stock Exchange with stock code 0343) from 2000 to 2005. He later served as Managing Director of Nouveau Investment Group Limited from 2005 to mid-2010. He served as Chief Operating Officer of GreaterChina Professional Services Limited (now known as Asia-Pac Financial Investment Company Limited, a company listed on the Stock Exchange with stock code 8193) from July 2010 to March 2015. Mr. Cheung was an independent non-executive director of Greens Holdings Limited (a company listed on the Stock Exchange with stock code 1318) from December 2014 and subsequently appointed as executive director until October 2015. Mr. Cheung has served as executive director of Pearl Oriental Oil Limited (a company listed on the Stock Exchange with stock code 632) since October 2016 until now.

Mr. Cheung received his bachelor's degree in social sciences from the University of Hong Kong in 1984 and his master's degree in science (financial economics) from the University of London in 1995. Mr. Cheung is the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr. Wu Chi Keung, aged 62, was appointed as an independent non-executive director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently managing director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive director of Jinchuan Group International Resources Co., Ltd (stock code: 2362), Zhong Fa Zhan Holdings Limited (stock code: 475), Huabao International Holdings Ltd. (stock code: 336), Huajin International Holdings Limited (Stock code: 2738) and Zhou Hei Ya International Holdings Company Limited (Stock code: 1458), all the shares of which are listed on the Stock Exchange. Mr. Wu was an independent non-executive director of COFCO Meat Holdings Limited (Stock code: 1610) from 23 June 2016 to 12 December 2017 and also an independent non-executive director of YuanShengTai Dairy Farm Ltd. (stock code: 1431) from 7 November 2013 to 28 September 2018.

Mr. Wu is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants in the United Kingdom. Mr. Wu graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1980 with a high diploma in accountancy. Mr. Wu is the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr. Leung Chong Shun, aged 53, was appointed as an independent non-executive Director of the Company on 13 December 2017. Mr. Leung became a practicing lawyer since 1991 and was the Chief Representative of Woo Kwan Lee & Lo Beijing Office. He is currently a Partner of Woo Kwan Lee & Lo. Mr. Leung is familiar with corporate finance, M&A and IPO legal services and has been involved in various listing and acquisition transactions of Chinese H share companies and red chip companies. Mr. Leung is currently an Attesting Officer appointed by the PRC. Mr. Leung was an independent non-executive director of China Communications Construction Company Limited (a company listed on the Stock Exchange with stock code 01800) from January 2011 to November 2017 and China National Materials Company Limited (a company listed on the Stock Exchange with stock code 01893) from July 2007 to April 2018. He is currently an independent non-executive director of SSY Group Limited (formerly known as Lijun International Pharmaceutical (Holding) Co., Ltd., a company listed on the Stock Exchange with stock code 02005), China Coal Energy Company Limited (a company listed on the Stock Exchange with stock code 01898) and Min Xin Holdings Limited (a company listed on the Stock Exchange with stock code 00222).

Mr. Leung graduated from the University of Hong Kong in 1988 and obtained a bachelor's degree in laws with honours. He is qualified as a solicitor in Hong Kong and England. Mr. Leung is the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company.

Company Secretary

Ms. Wu Sanyan, aged 37, joined the Group in 2009 and currently holds the position of Company Secretary and Director of the Legal Department. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules). The responsibilities of Ms. Wu since her joining of the Group include advising on compliance of laws and regulations applicable to the Group (including the Listing Rules). Ms. Wu obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from the Wuhan University. During the Reporting Period, Ms. Wu had received the professional training for no less than 15 hours to promote her skill and knowledge.

The Board of the Company is pleased to present the "Directors' Report" and audited consolidated financial statements of the Group for the year ended 31 December 2018.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 42 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 94.

Business Review

Business review of the Group for the year ended 31 December 2018 can be found in the section headed "Management Discussion and Analysis" of this annual report, the discussion of which forms part of this "Directors' Report".

Reserves

Movements in reserves for the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 97 and note 32 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2018, the Company had distributable reserves of RMB5,047.6 million available for distribution to our shareholders.

Property, Plant and Equipment

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

Share Capital

Movements in the share capital of the Company are set out in note 31 to the consolidated financial statements.

Final Dividend

The Board is pleased to recommend a final dividend of RMB0.1434 (equivalent to HK$0.168) per Share for the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on Thursday, 2 May 2019. The register of members of the Company will be closed on Thursday, 2 May 2019. The final dividend will be paid to shareholders about Thursday, 9 May 2019 after the shareholders' approval at the AGM scheduled for Thursday, 25 April 2019.

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 oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2018, the Company and its subsidiary have repurchased an aggregate of 6,839,000 ordinary shares of US$0.005 each on the Stock Exchange at an aggregate consideration of HK$59,783,960. All of the purchased shares were cancelled on 21 December 2018. The Board believes that given the current financial resources of the Company, the share repurchase will not affect the Company's solid financial position, and it will lead to an enhancement of the net asset value per share and/or earnings per share, which is in the interest of the shareholders as a whole.

Details of the repurchase are as follows:

Month of Repurchase	Number of Shares Repurchased*	Price per Share (HK$)		Aggregate Consideration Paid (HK$)
		Highest Price	Lowest Price	
October 2018	4,422,000	9.27	8.75	39,774,530
November 2018	1,300,000	9.20	8.52	11,392,230
December 2018	1,117,000	7.80	7.64	8,617,200
Total	6,839,000	-	-	59,783,960

* Note:

1. Of which 1,272,000 ordinary shares were purchased by a subsidiary of the Company on the Stock Exchange.

Save as disclosed above, none of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2018.

Directors

The Directors of the Company during the year and up to the date of this Report were:

Executive Directors:

Mr. LAM Kong (Chairman and Chief Executive)
Mr. CHEN Hongbing (Chief Operating Officer)
Ms. CHEN Yanling (Chief Financial Officer)

Independent Non-Executive Directors:

Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Pursuant to Article 16.18 of the Articles of Association, at every AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall be eligible for re-election. Accordingly, Ms. Chen Yanling, Mr. Cheung Kam Shing, Terry and Mr. Leung Chong Shun will retire from their offices at the AGM and, being eligible, offer themselves for re-election at the AGM.

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Ms. Chen Yanling, Mr. Cheung Kam Shing, Terry and Mr. Leung Chong Shun. Details of these retiring Directors are set out in the circular issued by the Company on 22 March 2019.

Annual Confirmation of Independence

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Listing Rules.

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 29 to 31 of this annual report.

Directors' Service Contracts

Each of the Directors of the Company has respectively entered into an appointment letter with the Company, and all the executive Directors and independent non-executive Directors were appointed for a three-year and one-year term, respectively. Their appointments are subject to retirement from office by rotation and re-election at the AGM of the Company in accordance with the Articles of Association. Save as disclosed above, none of the Directors has entered or intended to enter into any contract of service with the Company or any of its subsidiaries which cannot be determinable by the employer within one year without payment of compensation (except for statutory compensation).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Employee Benefit Scheme

During the Reporting Period, approved by Benefit Scheme Executive Committee of the Company, there were 8 employees participating in the CMS Key Employee Benefit Scheme. Details of the Employee Benefit Scheme are set out in note 41 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2018, none of the Directors or entities connected with the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries was a party.

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

As at 31 December 2018, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,089,426,000 (L) (Note 2)	43.92%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.81%
		Interest in controlled corporation	45,000,000 (L) (Note 3)	1.81%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.29%

Notes:

1. The letter "L" denotes long positions in the Shares.
2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
3. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.

Directors' Right to Acquire Shares or Debentures

At no time during the Reporting Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2018, the Directors were not aware of any other person (other than the Directors or the Chief Executive of the Company) who held interest and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions

Details of connected transactions are set out in note 39 and note 41 to the consolidated financial statements.

Employees

As at 31 December 2018, the Group had about 3600 employees. The Group has initiated organizational reform and speeded up the cultivation and recruitment of talents through optimizing the current human resources and innovating the way of management to enhance the development of the Group. The Group has adopted a series of measures to facilitate employees' work efficiency and regularly assesses their performance. The Group provides employees with competitive compensation package including salaries, bonuses, insurance and benefits. Salaries and bonuses are based on employees' performance and are measured against specific objective criteria. Additionally, the Group is committed to providing equal opportunities to all employees in all respects and has made efforts in employees' continuing education and training programs to continuously enhance their knowledge, skills and team spirit.

Directors and Senior Management's Emoluments

The remuneration committee determines and proposes to the Board (as the case may be) on the remuneration and other benefits payable to the Directors and Management. The committee, on a routine basis, supervises the remuneration of all Directors and Management to ensure that their remuneration and compensation are appropriate and reasonable. The Group adopts competitive remuneration packages with reference to the industry standard and in the light of the business advancement of the Group, and determines remuneration of the Directors and Management after taking into account their qualifications, experience and contributions, so as to attract and retain its Directors and Management.

Particulars of directors' emoluments and the five highest paid individuals of the Group are set out in note 8 and note 9 to the consolidated financial statements, respectively.

For the year ended 31 December 2018, emoluments of Company Secretary Ms. Wu Sanyan was between HK$300,000 and HK$800,000.

Key Relationship with Employees, Customers and Suppliers

The Company maintains good relationships with its employees by taking all practicable measures, including but not limited to improving, reviewing and updating its polices on remuneration and benefits, training, occupational health and safety, to ensure that all the staff are reasonably remunerated.

The Company has a good relationship with its customers and is always improving its communication mechanism with customers to ensure all the complaints or feedback from its customers can be informed by the Company in time and the customers can receive service of high quality.

The Company maintains long-period good cooperation with domestic and overseas suppliers, which are of good reputation in the industry.

Environmental Policies and Performance

The Group has strictly enforced the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), Law of the People 's Republic of China on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪音污染防治法》), and other laws and regulations. The Group has set up environmental management organizations, equipped with full-time environmental management personnel, established and improved the environmental management system, and developed the comprehensive risk-defensive measure and emergency plan for accidents which guard against environmental risk accidents in business management and production processes. We also require our suppliers to operate in strict compliance with the relevant environmental regulations and rules and obtain all necessary permission and approval from the relevant government authorities.

Compliance with Laws and Regulations

During the Reporting Period, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

Principal Risks and Uncertainties

There are a number of risks and uncertainties which may affect the performance and operation of the Company. The following is a summary of principal risks and uncertainties identified by the Company:

Compliance with GMP and GSP Standards

In accordance with applicable laws and regulations, the Company is required to comply with Good Manufacturing Practice ("GMP") standards and Good Supplying Practice ("GSP") standards by certain time limits. The Company has been granted the relevant certificates by NMPA and other applicable governmental authorities. There can be no assurance that the Company may be able to renew those certificates when they expire and in the event that those certificates are not renewed upon their expiry, the Company's business may still be largely and adversely affected after taking related remedies.

Product Liability

As the insurance is not mandatorily required, the Group has not covered effective product liability insurance in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group which couldn't be solved through negotiation or any other ways, the Group may suffer major cost and damage to its relationship with customers.

Healthcare Reform in China

The government regulation and governance over the healthcare system in the PRC is undergoing a crucial reform period, where (i) the applicable laws, regulations and policies pertaining to the healthcare, medical and pharmaceutical industry are constantly evolving, and (ii) governmental authorities in the PRC may regularly or unexpectedly amend their implementation practices. Enforcement action taken by the government against the Group may affect us materially and adversely and significant adverse consequences may be therefore incurred if our Group didn't optimize company strategy to adapt to the variation of Chinese medical system in time. Moreover, continual changes in the scope and the extent of application of the government regulation and governance lead to more risks and uncertainties in respect of the performance and operation of the Group.

Tender and Price Control

The Company and its subsidiaries have to participate in a government-led tender process every year or every few years. Any failure of the tender in a provincial tender process will affect the Group to sell products in such province. Moreover, the product price, our market share, revenue and profitability may be affected due to certain new methods recently adopted in the provincial tender process.

R&D, Regulatory Approval and Commercialization of Innovative Patented Products

Whether innovative patented products can be developed successfully, obtain regulatory approval and realize commercialization are affected by a number of factors, including but not limited to whether having sufficient resources to acquire or discover more drug candidates, pre-clinical studies and clinical trial delays or failures, the uncertainties of the time that the approval process takes and the regulatory approval process, whether the products can be promoted successfully and their acceptance by the market if they obtain the regulatory approval, etc. If the R&D of innovative patented products fails, no regulatory approval is obtained or market acceptance is poor, the Group's future development may be affected adversely.

There may be other principal risks and uncertainties in addition to those shown above which are not known to the Company or which may not be material now but could turn out to be material in the future.

Major Customers and Suppliers

For the year ended 31 December 2018, the percentage of sales to the Group's five largest customers was approximately 26.3% of the Group's total sales, and sales to the top customer accounted for approximately 9.0% of the total sales.

For the year ended 31 December 2018, the percentage of purchases from the Group's five largest suppliers was approximately 84.3% of the Group's total purchases, and purchase from the top supplier accounted for approximately 35.4% of the total purchases.

Except as disclosed in note 39 to the consolidated financial statement, none of the Group's directors, their close associates or shareholders had an interest in supplier or customer.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on pages 42 to 51 of this annual report.

Sufficiency of Public Float

According to the publicly available information and as far as the Directors were aware of, as at the date of this annual report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

Non-competition and Indemnity Agreements

The Company entered into a deed of non-competition with Mr. Lam Kong and his wholly owned company registered in the British Virgin Islands - Treasure Sea Limited ("Treasure Sea") on 14 September 2010 (the "Non-competition Deed"). Mr. Lam Kong and Treasure Sea jointly undertook not to carry on businesses that are in competition with the Company's businesses.

Mr. Lam Kong and Treasure Sea stated that they complied with the relevant clauses of the Non-competition Deed, and did not engage in businesses that are in competition or may compete with the businesses of the Company and any of its subsidiaries, and also did not directly or indirectly hold any business interest that is in competition with the businesses of the Company and any of its subsidiaries during the Reporting Period.

The independent non-executive Directors have reviewed the compliance of the Non-competition Deed by Mr. Lam Kong and Treasure Sea during the Reporting Period, and reviewed the relevant business information provided by the Company. The independent non-executive Directors were of the opinion that Mr. Lam Kong and Treasure Sea complied with the relevant terms of the Non-competition Deed during the Reporting Period and did not cause any competition with the Company. The Board of Directors operated and managed the Company's businesses independently in the interests of the Company and its shareholders as a whole.

Donation

During the Reporting Period, the Group had made donations of RMB0.2 million for charitable and other purposes, please refer to Community Dedication on page 80 for details.

Permitted Indemnity Provision

According to the Articles of Association of the Company, among others, every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Appropriate insurance covering for the Directors' and senior management's liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities of the Group has been arranged by the Company.

Equity-Linked Agreements

The Company has not entered into any equity-linked agreement during the year ended 31 December 2018.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules from 1 January 2018 to 31 December 2018, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on pages 42 to 51 of this annual report.

Competing Interests

None of the Directors or management and their respective associates (as defined in the Listing Rules) has an interest in a business which competes or may compete with the businesses of the Company or any of its subsidiaries or has any other conflict of interest with the Company during the Reporting Period.

Audit Committee

The details of the Audit Committee are set out on page 46 of the Corporate Governance Report of this annual report.

Auditors

The Company has appointed Deloitte Touche Tohmatsu as auditors since the listing of the Company on the Main Board of the Stock Exchange on 28 September 2010. The financial statements in the Annual Report for the year have been audited by Deloitte Touche Tohmatsu. A resolution will be submitted at the AGM of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board
China Medical System Holdings Limited
Lam Kong
Chairman

Hong Kong, 18 March 2019

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance and has adopted sound governance and disclosure practices. The Company believes that continuously improving the corporate governance can increase the Group's accountability and transparency so as to maximize the long-term level shareholder value.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised CG Code as set out in Appendix 14 to the Listing Rules from 1 January 2018 to 31 December 2018, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and Chief Executive of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Directors' Securities Transactions

The Company adopted the Model Code (amended from time to time) as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2018. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period.

Operation of the Board

In accordance with good corporate governance principles, the Board convened regular meetings in accordance with statutory procedures, and complied strictly with the applicable laws, regulations and the Articles of Association in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders as a whole.

The role and responsibilities of the Board broadly cover reviewing and approving corporate mission and broad strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate measures and control systems to manage these risks; and reviewing and approving important matters such as financial results, investments and divestments and other material transactions. All Directors and Board Committees have access to external legal counsel and other professionals for independent advice to better perform their duties at the Group's expense if necessary.

The Board has performed the strategic decision-making function in accordance with the long-term interest of the Group as well as the interest of shareholders and relevant party, and been subject to effective supervision and assessment in maintaining corporate resources and conducting operation management. The Board is responsible to make effective incentives and constraints for the management when duly delegating powers to them. Meanwhile, as the core of the Company's corporate governance framework, the Board has clearly separated its functions and duties from that of the management. Differentiating itself from the functions and duties of the Board, the specific responsibilities and duties of the management of the Company are inclusive of running the Company's day-to-day business; drafting and proposing the Company's annual business plan and investment plan; working out the human resource policy and arranging an appropriate organizational structure of the Company; drafting plans for the establishment of the Company's branch offices; creating and upgrading the Company's basic internal management system and mandates for Company management; within the authority delegated by the Board, appointing, changing or recommending shareholder representatives, directors and supervisors in its holding subsidiary or joint stock subsidiary; and other powers delegated by the Board.

The Company has established three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee, which mainly comprise independent non-executive Directors and are responsible for overseeing particular aspects of the Group's business, and to provide the Group with recommendations for improvements. Please see below for the work scope of these committees. The Board has delegated the responsibilities of the day-to-day management and operation of the Group's businesses to the management of the Company and its subsidiaries.

Composition of the Board

As at the date of this annual report, the Board consists of six Directors, including three executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; three independent non-executive Directors, namely Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Leung Chong Shun. Biographical details of the Directors are set out on pages 29 to 31 of this annual report. Save as disclosed in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Appropriate insurance cover for the Directors' and senior management's liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities of the Group has been arranged by the Company.

Board Attendances and Time Commitment

During the Reporting Period, the Company held seven Board meetings and one AGM. The following is the attendance record of the Directors at such meetings held during the Reporting Period.

Name	Title	Attendance Rate	
		Board Meeting	AGM
Mr. Lam Kong	Chairman and Chief Executive	6/7	1/1
Mr. Chen Hongbing	Chief Operating Officer	7/7	1/1
Ms. Chen Yanling	Chief Finance Officer	7/7	1/1
Mr. Cheung Kam Shing, Terry	Independent Non- Executive Director	7/7	1/1
Mr. Wu Chi Keung	Independent Non- Executive Director	7/7	1/1
Mr. Leung Chong Shun	Independent Non- Executive Director	7/7	1/1

Upon reviewing (i) the annual confirmation of the time commitment given by each Director; (ii) the directorships and major commitments of each Director; and (iii) the attendance rate of each Director for the Board meetings and AGM, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Reporting Period.

Chairman and Chief Executive

Code Provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established and set out in writing.

Mr. Lam Kong has been both the Chairman and Chief Executive of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Independent Non-executive Directors

For the year ended 31 December 2018, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

The independent non-executive Directors are appointed for a period of one year. All of them are subject to retirement by rotation and re-election by shareholders at the AGM in accordance with the Articles of Association of the Company. The responsibilities of the independent non-executive Directors include, without limitation: regular attendance at meetings of the Board and of Board Committees of which they are members; provision of independent opinion at meetings of the Board and other Board Committees; service on the Audit Committee, Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company as a whole.

Directors' Continuous Professional Development

On appointment to the Board, each newly appointed Director has received professional lawyer's training covering the general, statutory and regulatory obligations of being a director of a listed company to ensure that he/she is sufficiently aware of his /her responsibilities under the Listing Rules and other relevant legal requirements.

From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Company Secretary also organizes and arranges seminars on the latest development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

According to the records maintained by the Company, the following Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the revised CG Code on the continuous professional development during the Reporting Period.

	Corporate Governance/ Updates on Laws, rules and Regulations/Updates on Industry Specific	
	Written Materials	**Briefings/Seminars**
Executive Directors		
Mr. Lam Kong	√	√
Mr. Chen Hongbing	√	√
Ms. Chen Yanling	√	√
Independent Non-executive Directors		
Mr. Cheung Kam Shing, Terry	√	√
Mr. Wu Chi Keung	√	√
Mr. Leung Chong Shun	√	√

Committees

The Company has established Audit Committee, Remuneration Committee and Nomination Committee. The function of each of these committees is to study pertinent issues in its area of expertise and to provide opinion and recommendations for consideration by the Board under its own defined terms of reference.

Audit Committee

The Company established the Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Leung Chong Shun as the committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2018 of the Company have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2018, the Audit Committee has held four meetings. At the meetings, the Audit Committee reviewed the annual results for 2017 with the external auditors, the interim results for 2018, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meeting for the Year ended 31 December 2018**
Mr. Wu Chi Keung	4/4
Mr. Cheung Kam Shing, Terry	4/4
Mr. Leung Chong Shun	4/4

Remuneration Committee

The Company established a Remuneration Committee in 2007. The Remuneration Committee comprises three independent non-executive Directors, and is chaired by Mr. Leung Chong Shun, with Mr. Cheung Kam Shing, Terry and Mr. Wu Chi Keung as the committee members.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board on the policy and structure for remunerations of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; (iii) approving the terms of Directors' service contracts, and (iv) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time. The terms of reference of the Remuneration Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2018, the Remuneration Committee has held one meeting. At the meeting, the Remuneration Committee reviewed and recommended adjusting remuneration of the Directors and senior management with reference to the industry standard, in the light of the business advancement of the Group and according to their qualifications, experience and contributions, and considered that the proposed remunerations of whom were reasonable and appropriate. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meeting for the Year ended 31 December 2018**
Mr. Leung Chong Shun	1/1
Mr. Cheung Kam Shing, Terry	1/1
Mr. Wu Chi Keung	1/1

Nomination Committee

The Company established the Nomination Committee in 2007. The Nomination Committee comprises one executive Director and three independent non-executive Directors, and is chaired by Mr. Cheung Kam Shing, Terry, with Mr. Lam Kong, Mr. Wu Chi Keung and Mr. Leung Chong Shun as the committee members.

The primary duties of the Nomination Committee are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, and to take up references and to consider related matters. The terms of reference of the Nomination Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2018, the Nomination Committee has held one meeting. At the meeting, the Nomination Committee reviewed the composition and structure of the Board in order to determine whether it is in compliance with requirements under the relevant laws, regulations and rules and whether the diversity on the Board has been achieved and maintained, considered and made recommendations to the Board on the re-appointment of the retiring directors at the 2017 annual general meeting, and also assessed whether the non-executive Directors had spent enough time in fulfilling their duties and their independence. The committee is of the view that the current composition and structure of the Board comply with the applicable regulations and the Board is experienced and have diversified perspectives and views. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2018
Mr. Cheung Kam Shing, Terry	1/1
Mr. Lam Kong	1/1
Mr. Wu Chi Keung	1/1
Mr. Leung Chong Shun	1/1

Board Diversity Policy

The Company views the increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives, maintaining competitive advantages and keeping sustainable development. Therefore, the Company has adopted a Board Diversity Policy (the "Policy") to set out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to professional skills, experience, culture and education background, ethnicity, gender, age, etc. In introducing its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time. Ultimately, all Board appointments will be based on merit, and candidates will be considered against objective criteria, fully having due regard for the benefits of diversity on the Board. Nomination Committee will discuss and agree measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. Additionally, Nomination Committee will review the Policy on a regular basis to ensure its continued effectiveness.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Auditor's Remuneration

For the year ended 31 December 2018, we have appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for the service was HK$3.1 million.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2018. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The responsibility of auditor is set out in the independent auditor's report in page 91.

Risk Management and Internal Controls

The Group has established and designed appropriate policies and controls to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and main risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable but not absolute assurance to prevent material misstatement or losses, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Board confirms its responsibility for supervising the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Group Internal Audit and the Audit Committee assist the Board in the review of the effectiveness of the Group's risk management and internal control systems on the basis of continuity. The directors through these committees are kept regularly appraised of significant risks that may impact on the Group's performance.

Regarding the procedure and internal control over handling and propagation of the inside information, the Group has adopted an inside information management policy which has been informed to all the staff. Based on the policy and in order to ensure that the inside information would be processed and propagated in compliance, the Group has established monitoring measures to ensure that the potential inside information could be recognised, assessed and then provided to the Board for their decision that whether a disclosure is required.

The Audit Committee assists the Board in performing its supervision and corporate governance roles in the Group's financial, operational, compliance, risk management , internal controls, the resourcing of the finance and internal audit functions by reviewing the working report from internal audit and external audit. During the Reporting Period, the Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group in respect of financial, operational and compliance controls with emphasis on information technology and security, information privacy and protection, business continuity management and procurement. Such results were assessed by the Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a significant impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and sufficient including the adequacy of resources, staff qualifications and experience, sufficient training programs for the staff and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls executed within the Group, the external auditor appointed by the Group also assessed the adequacy and effectiveness of certain main risk management and internal controls as part of their regulatory audits. The external auditor's related recommendation will be adopted under appropriate circumstances to strengthen the risk management and internal controls.

Shareholders' Rights

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of Articles of Association of the Company, any one or more shareholders 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 has the right, by written requisition specifying the objects of the meeting and signed by the requisitionists to the Company's headquarters and principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited (Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong). Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's headquarters and principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

Articles of Association

During the Reporting Period, there were no changes made in the Company's Articles of Association.

Communications with Shareholders and Investors

The Company attaches great importance to the communications with shareholders and investors as always, and is committed to timely and objective disclosure of important information for shareholders and investors, to actively and effectively deliver the latest development of the company to the capital market. The Company has been dedicated to establishing a comprehensive, scientific and systematic management system for investor relations, achieving multi-channel communications. The Company communicates with its shareholders and investors mainly through the following approaches: (i) the Annual General Meetings and Extraordinary General Meetings, providing a platform for shareholders and investors to communicate with the Board of Directors of the Company; (ii) the timely release of the latest news and updates of the Company on the official website and WeChat public page of Investor Relations, providing different ways for the investors to follow the information of the Company; (iii) replying of various questions related to the Company's business raised by shareholders and investors of the Company via various ways such as telephone and email; (iv) the Interim and Annual Results Announcement Events, provides analysts, shareholders and investors a face-to-face communication opportunity with executives; (v) the participation of various conferences and road shows organized by sell-side institutions; (vi) organizing and hosting of investors visit and conference call requests. During the Reporting Period, the management of the Company has received more than a thousand domestic and overseas representatives of institutions and individual investors.

The active and persistent communications with shareholders and investors have been recognized by third parties. During the Reporting Period, the Company once again won Golden HK Listed Companies Award of "The Most Valuable Pharmaceutical Listing Company", making the second consecutive year that the Company has won the honor. In addition, the Company was successfully selected as one of "The Most Attractive Hong Kong Stock-Connect Companies for Institutional Investors", and won the Golden Wing Award of "Hong Kong Stock-Connect Company with the Most Substantial Growth Potential" held by the *Securities Times*. In addition, the Company was also recognized as the "Honored Company" in the Health Care and Pharmaceuticals Industry by the *Institutional Investor Magazine* ("II Magazine"). Ms. Yanling Chen, the Executive Director, Vice President and CFO of CMS, won the Third Place of "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry", which was the seventh consecutive time for Ms. Yanling Chen being awarded. In 2017, CMS won Golden HK Listed Companies Awards of "The Best Investor Relations Management". During the same year, the Company was honored to be recognized as the "All-Asia Most Honored Company" by the II Magazine. Mr. Lam Kong, Executive Director, Chairman and Executive Officer of CMS, was awarded the Second Place of "All-Asia Best CEO (Overall) in Healthcare and Pharmaceutical Industry" for the second time. In addition, CMS's Investor Relations team won the Second Place of "All-Asia Best Investor Relations (Overall) in Healthcare and Pharmaceutical Industry", which was the third time for CMS Investor Relations team being awarded. In December 2017, the Company was once again awarded BIVA "The Listed Company with the Best Investment Value" for the second consecutive year. In 2016, CMS Investor Relations team won the Second Place of "All-Asia Best Analyst Days (Overall) in Healthcare and Pharmaceutical Industry" in an event organized by *II Magazine*. In 2015, the Company was awarded "The Best Listed Company" at "The 5th Chinese Securities Golden Bauhinia" Award Ceremony held by *Ta Kung Pao* in Hong Kong; the Company was awarded the "Best Investor Relations" - Healthcare Industry by *IR Magazine Awards* - Greater China. In 2014, the Company was awarded "The Listed Company with the Best Information Disclosure" at "The 4th Chinese Securities Golden Bauhinia" Award Ceremony held by *Ta Kung Pao* in Hong Kong.

Since listed in the Stock Exchange, the Company has strictly abided by the listing rules, and actively promoted investor relations related works and reinforced the connection with investors, to improve corporate transparency. In the future, we will continually maintain close, sincere and effective communications and interactions with investors, listen attentively to the feedbacks and voices from capital markets, and further optimize investor relations.

1. About the Report

The Report is the third environmental, social and governance ("ESG") report of CMS, dating from 1 January 2018 to 31 December 2018. The Report is disclosed annually.

1.1 Basis of Preparation

The Report is prepared as per *Appendix 27 Environmental, Social and Governance Reporting Guide of Main Board Listing Rules* issued by the Stock Exchange.

The content of the Report was formulated through systematic procedures, including: project kickoff, review and summary of the 2017 ESG Report working paper, on-site investigations and interviews, stakeholders identification, stakeholder surveys, identification and ranking of the ESG material issues, determining the disclosure scope of the Report, collecting relevant information and data, reviewing relevant information and data, preparing the Reports based on collected information and data, Board of Directors' review and final approval.

1.2 Scope of the Report

The Report discloses the ESG risks and performances of the Group conforming to the principle of "Materiality" mentioned in the *Environmental, Social and Governance Reporting Guide*. Unless otherwise indicated, the Report's scope includes the Company, its wholly owned subsidiaries and majority owned subsidiaries (including pharmaceutical promotion and network management business, pharmaceutical production business, and agriculture and livestock business. During the Reporting Period, the products from agriculture and livestock business were only for internal consumption and did not contribute to the Group's revenue).

1.3 Data Sources and Reliability Statement

The materials and cases disclosed in the Report were extracted from the Group's relevant reports and archives. The Group undertakes that the Report does not contain any material false information or misleading statements, and responsible for the content of the Report as to its authenticity, accuracy and completeness.

1.4 Confirmation and Approval

The Board of Directors and senior management team of the Group have approved the Report to ensure that there is no material false information, misleading statements or major omissions in its content.

1.5 Obtaining the Report

The Report, as a part of the Group's 2018 Annual Report, can be accessed and downloaded from the Stock Exchange's website (www.hkexnews.hk) and the Group's website (www.cms.net.cn). For further consultation, any opinion or suggestion of the Report, please contact the Group via ir@cms.net.cn.

2. Responsibility Management

2.1 Company Responsibilities

As a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China, CMS is committed to "offering competitive products and services to meet China's unmet medical needs", adhering to its core value of "value creation for customers, global reach for innovation, dedication and perseverance, ethics and integrity, professionalism and entrepreneurship". The Group will take "carrying out the concept of environmental protection and achieving the value of social responsibility, being committed to becoming a leading sustainable pharmaceutical enterprise in China" as its goal of sustainable development. During the Reporting Period, CMS has established a dedicated ESG management team based on the goal, to push forward the sustainability work comprehensively, and has made a solid step towards the Group's sustainable development goal.

2.2 ESG Management

A complete and scientific management structure is the foundation for well-organized and efficient ESG governance and serves as the key for sustainable development. Based on the Stock Exchange guide and relevant ESG information, CMS has established a complete ESG governance structure with emphatically increasing the involvement of the Board of Directors to improve the overall ESG management.

CMS has formulated a three-tier ESG governance structure to conduct the ESG management, which is shown in Figure 1:

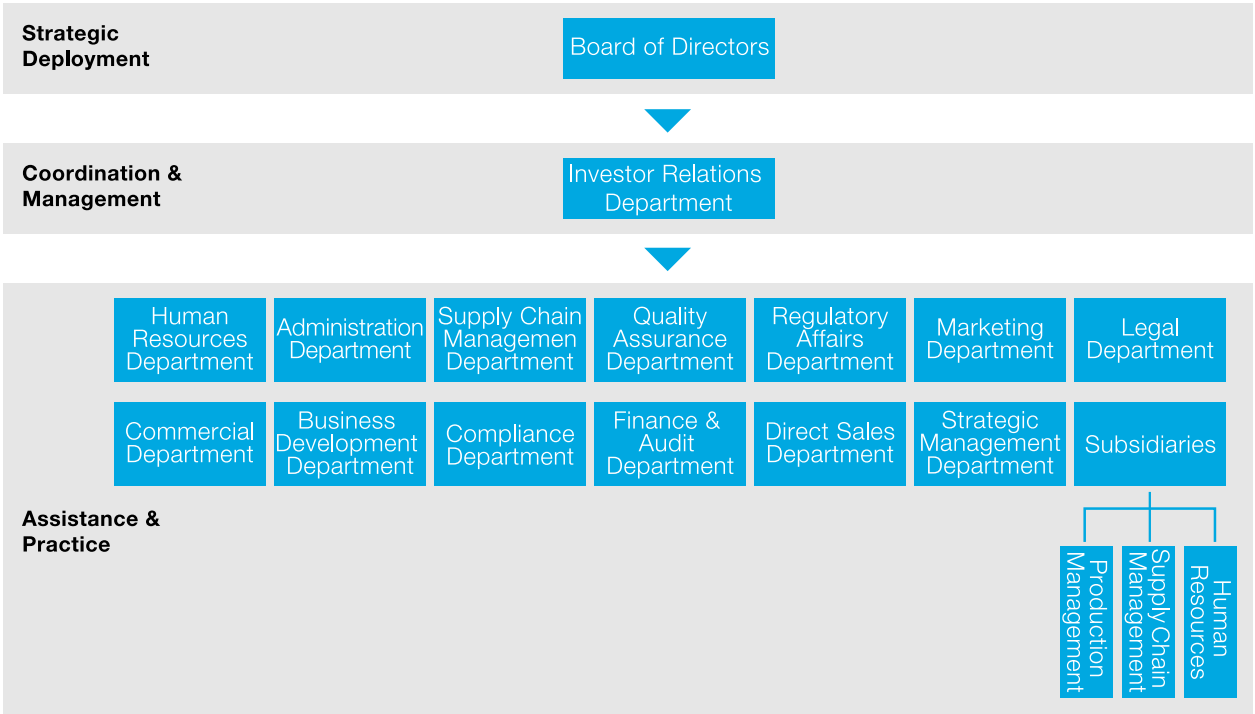


Figure 1 CMS's ESG Governance Structure

- At the top level, Strategic Deployment, the Board of Directors leads ESG management by strategy formulation, administrative system approval, and the review and approval of the ESG Reports and other ESG work deliverables, etc.;
- At the second level, Coordination and Management, the Investor Relations Department of the Group coordinates the implementation of ESG management by coordinating and arranging the annual ESG work for each relevant department and subsidiary, including report drafting and information disclosure, and reporting to the Strategic Deployment level bout the ESG work progress and deliverables periodically;
- At the third level, Assistance and Practice, each department and subsidiary of the Group appoints its own ESG coordinator, whose job responsibilities include drafting and implementation of ESG related policies and provisions, collection and reporting of ESG information, and reporting of ESG work deliverables.

The rigorous and well-organized ESG management process provides the working basis and methods for ESG management to improve its efficiency. CMS follows the ESG management process, which is shown in Figure 2:

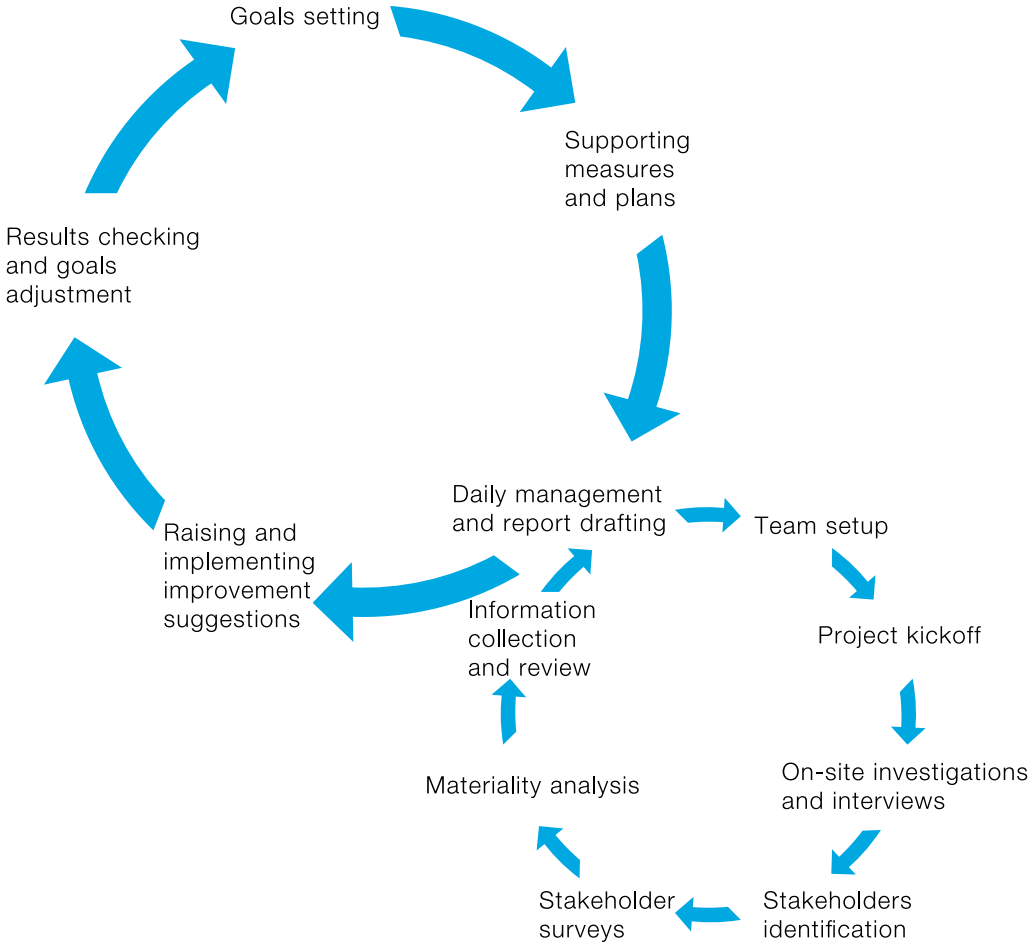


Figure 2 CMS's ESG Management Flow Diagram

CMS has established a nested closed-loop ESG management process: first, setting the annual ESG management goals, and then making supporting ESG management measures and plans based on the ESG management goals, conducting daily management and annual ESG Report drafting based on the measures and plans; making and implementing supporting improvement plans for issues of the existing management practice based on the annual report preparation process in combination with on-site investigations, interviews and stakeholders' concerns, checking work performance at the end of the year, and making adjustments and formulating new goals in time based on the latest progress.

The management process provides a solid foundation for the ESG management work from annual management goals setting to the implementation of specific practices, and meets the implementation needs of ESG management, ensuring the implementation of CMS's sustainable development plan, and continuous improvement of the environmental and social governance of the Group.

See below for CMS's 2018 ESG management condition and 2019 ESG management goal:

Table 1 CMS's 2018 ESG Management Condition and 2019 ESG Management Goal

2018 ESG Management Condition	2019 ESG Management Goal
Well-organized ESG management team and clear working process	Improve the recognition of sustainable development in the Group
Established a relatively enhanced ESG administrative system and policies	Further improve the ESG administrative system and policies
Comprehensive product quality control in production, procurement, storage and sales sections conforming to GSP and GMP requirements	Conduct regular audit on quality management conditions and constantly improve and complete the internal operation to guarantee the product quality
Established good communication, cooperation and supervision mechanisms with suppliers	Strengthen the restriction and control of the suppliers' environmental and social risks
Provided relatively comprehensive safety, health, development, training and welfare systems for employees	Reinforce employee satisfaction survey mechanisms for better understanding of their demands, and constantly optimize the enterprise's organizational atmosphere
Implemented the concept of environmental protection, and controlled the emissions and the utilization of resources	Enhance environmental awareness among employees and reinforce environmental related internal audits

2.3 Stakeholder Engagement

CMS has established a routine stakeholder communication system according to stakeholders' demands, the Group is committed to fulfilling the positive interactions with stakeholders with targeted and diverse communication methods, and to making active response to their needs, pushing forward the implementation of sustainable development work.

During the Reporting Period, CMS has established stakeholder relations via the following communication method:

Table 2 CMS's Stakeholder Communication Methods

Stakeholder	Communication Requirement	Communication Method
Governmental and regulatory authority	• Compliance with laws and regulations, drug safety • Compliant operation under supervision • Taxation, employment creation	✓ Government-company seminar ✓ Supervision and inspection ✓ Work report and research
Investor/Shareholder	• Standardized governance, rigorous risk control • Stable operation, value creation • Information disclosure, openness and transparency	✓ General meeting ✓ Operation information, announcement and periodic report ✓ Telephone, fax, email, internet-voting for general meeting ✓ Company official website and WeChat public page ✓ Investor visit, meeting and presentation ✓ External road show
Supplier	• Open and fair procurement • Timely communication, win-win developments	✓ Face-to-face meeting and mutual visit ✓ Work meeting and communication via telephone, letter and email ✓ Company official website ✓ Industrial seminar ✓ Public bidding
Distributor	• Operation with integrity, compliant products • Timely communication, win-win developments	✓ Work meeting and communication via telephone, letters and email ✓ Company's official website ✓ Customer service hotline ✓ Face-to-face meeting and mutual visit
Employee	• Protection of rights and interests • Caring for employees, responding to employee appeals • Remuneration packages, training and development	✓ Occupational health and safety training ✓ Feedback platform ✓ Daily communication and meeting ✓ Performance assessment ✓ Questionnaire
External practitioner in the pharmaceutical industry	• Product safety, protection of rights and interests • Protection of privacy, business ethics	✓ Disclosure of product label and other information ✓ Academic conference ✓ Processing customer complaint and feedback
The public	• Good interaction, information disclosure • Product safety, protection of rights and interests • Protection of privacy, business ethics • Public well-being and charity • Community development • Social value	✓ Disclosure of product label and other information ✓ Periodic visit ✓ Handling of consumer complaint and opinion ✓ Volunteering activity ✓ Donation of money and drugs ✓ Spreading knowledge on medicine and health

2.4 Materiality Analysis

During the preparation of this ESG Report, CMS invited professional consultants to review and assess issues on the sustainable development of the Group for the year. Via the comprehensive communication with stakeholders multi-dimensionally through questionnaire, face-to-face communication, on-site visits and etc., the Group finally summarized and delivered the material issues for the year concerning its sustainable development, which constitutes the documentation basis of the Report.

2.4.1 Materiality Assessment Procedure

- Build a list of material issues: build CMS 2018 ESG material issue list based on the *Environmental, Social and Governance Reporting Guide* of the Stock Exchange, previous ESG related issues reviews, the Group's existing conditions of the year, the development of the pharmaceutical industry and the stakeholders' concerns;
- Stakeholder engagement: make and implement the annual stakeholder engagement plan, gain the stakeholders' original assessment of the issues through communication and questionnaires;
- Materiality assessment: assess issues by two dimensions of "importance to the company" and "importance to the stakeholders", obtain the Materiality Analysis Matrix and the Materiality Analysis List;
- Review and approval: submit the stakeholder engagement implementation plan and the materiality assessment report to the management for review and approval.

2.4.2 Matrix and List of Material Issues

Based on the questionnaire results, the stakeholders materiality ranking listed as following:

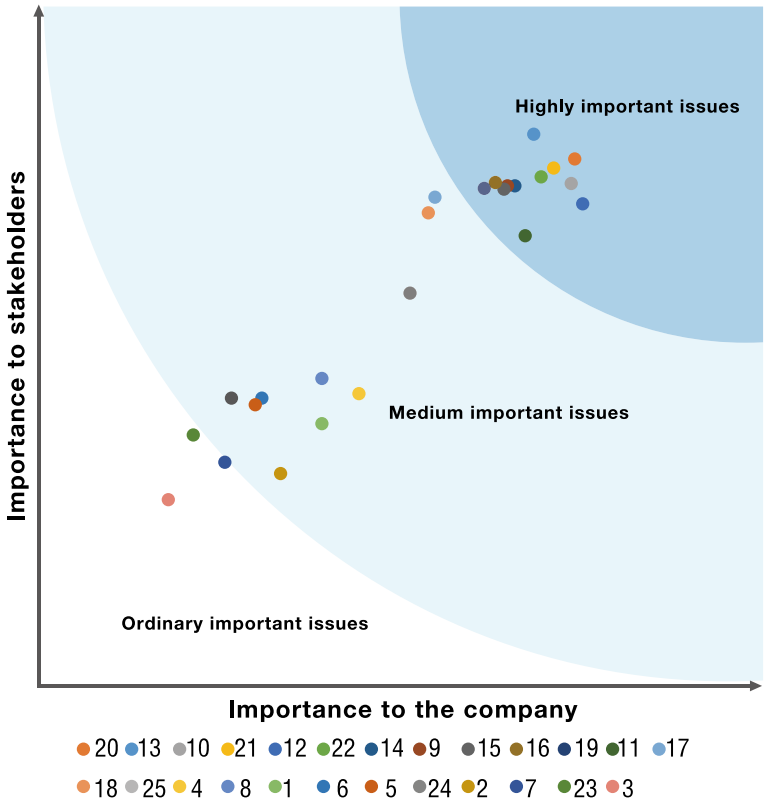


Figure 3 CMS's ESG Materiality Analysis Matrix

The materiality assessment of 2018 ESG issues for CMS found 12 highly important issues, 10 medium important issues and 3 ordinary important issues, the details of which are listed below:

Table 3 CMS's Materiality Analysis List

Importance of issue	Issue scope	Issue no.	Issue
Highly important issue	Company governance	20	Ensuring product and service quality
	Company governance	13	Caring about employee safety and health
	Company governance	10	Compliant operation
	Company governance	21	Improving the pharmacovigilance and drug recall mechanism
	Company governance	12	Providing competitive salary
	Company governance	22	Protection of intellectual properties
	Company governance	14	Providing training and skills enhancement courses for employees
	Company governance	9	Constructing a good company governance system
	Company governance	15	Providing a fair and transparent promotion path
	Company governance	16	Compliant employment
	Company governance	19	Protecting customer rights, interests and privacy
	Company governance	11	Improving the anti-corruption and anti-bribery system
Medium important issue	Company governance	17	Strict execution of supplier admittance and inspection criteria
	Company governance	18	Promoting supply chain sustainable development (environmental protection, anti-corruption, employment, etc.)
	Social responsibility	25	Investment activities to promote the advancement of the medical progress
	Environmental protection	4	Proper treatment of solid waste
	Environmental protection	8	Making guidelines and setting goals for environmental protection work
	Environmental protection	1	Compliance with emission standards
	Environmental protection	6	Energy conservation
	Environmental protection	5	Water conservation
	Social responsibility	24	Participation of public welfare charity, disaster relief activities and others
	Environmental protection	2	Resource investment to reduce emissions
Ordinary important issue	Environmental protection	7	Conservation of packaging materials
	Social responsibility	23	More resource investment to support the development of surrounding communities
	Environmental protection	3	Reducing greenhouse gas emissions

We have acknowledged the stakeholders' major concerns in the Group's ESG report and documented the Report as per the assessment results to respond to stakeholders' concerns in an orderly manner.

3. Compliance Operation

The Group utilizes its well-established organizational structure and clear division of duties in combination with information technologies for continuous optimization of internal management methods and management standards to reinforce the compliance operation. In addition, the employees must obey the laws, regulations, provisions and other regulated document and legal procedures applicable to the operation locations of the companies. The Group strictly abides by the market rules, ethics, integrity, professionalism and entrepreneurship to continually overcome challenges.

3.1 Anti-corruption

The Group strictly abides by the *Law of the People's Republic of China on Anti-money Laundering, Law of the People's Republic of China against Unfair Competition, Criminal Law of the People's Republic of China, Interim Provisions on Banning Commercial Bribery, Interim Provisions and Amendment on Banning Commercial Bribery* by the State Administration for Industry and Commerce, *Prevention of Bribery Ordinance* of Hong Kong, and other laws and regulations. The Group operates business under strict ethics standards and professionalism.

For anti-corruption, the Group specifies strict ethical bottom lines and quality standards to guide the employees' conduct professionally through setting *CMS Employee Code of Professional Ethics*, which forbids employees from engaging in bribery while interacting with internal or external stakeholders or seeking private benefits through misconduct. The guidance also requires employees to maximize their efforts in preventing activities that could or are likely to lead to bribery and corruption. The Group has also formulated the *Code of Promotional Conduct and Speaker Regulations* to provide behavior requirements and guidance on drug promotion content, promotional behavior professionalism, supplier selection of promotional activities, speaker qualification identification and etc. to ensure the compliance of the Company's promotional activities.

The Group has established a multi-dimensional behavior regulation and supervision system to prevent internal and external corruption, bribery, extortion, fraud, money laundering and etc. The Group's management team guides the direction of employee conduct regulation. And the internal Compliance Department promotes compliance culture, training and employee conduct inspection, and monitors, identifies and reports risk of code violation. The Direct Sales Department and Marketing Department guide and monitor regional promotional activities; meanwhile, the Finance & Audit Department enhances expenditure transparency and compliance of promotional conducts through financial management measures under the compliance framework, and utilizes the intelligent cloud system for process management enhancement, fully controlling and reviewing expenditure acts. In addition, as an important strategic supporting department for the company's business operation, the Legal Department controls and prevents legal risks for the Group.

The Group also encourages employees to report and complain suspicious acts, misconduct and code violations through the *Anti-Fraud Management Policy*. Employees can contact the Compliance Department or report to company superiors when detecting or suspecting any conducts violating the employee code of professional ethics via telephone, email, fax, letter, the internal ERP platform and etc. For complaints and reports, the Group shall handle the cases hierarchically based on the positions of the individuals being complained or reported. The persons involved are required to evade, ensuring the fairness and impartiality of case handling. All reports and complaints will be kept confidential to protect the security and interests of the complainant or the informer.

During the Reporting Period, there were no corruption lawsuits against the Group. The Group did not violate any related laws or provisions that significantly impacted the Group in the aspects of anti-bribery, extortion, fraud or money laundering.

4. Product Liability

The Group adheres to value creation for customers and is dedicated to providing competitive products and services. The Groups ensures the quality of its products and services, and improves customer satisfaction by building a quality management system, tracking the quality problems and regular quality auditing.

In terms of health, safety, advertising, labeling, privacy, intellectual property and remedial measures for products and services, the Group strictly abides by national laws and regulations including but not limited to the *Drug Administration Law of the People's Republic of China, Regulations for Implementation on Drug Administration Law of the People's Republic of China, Provisions for Adverse Drug Reaction Reporting and Monitoring, Provision for Drug Registration, Provisions for Medical Device Registration, Provisions for Drug Insert and Packaging Labels, Good Manufacture Practice of Drugs, Measures for the Supervision and Administration of Drugs Production, Provisions for Pharmaceutical Trading License, Good Supply Practice of Drugs, Administrative Measures for the Import of Drugs, Advertisements Law of the People's Republic of China, Review and Release Standards of Drug Advertisement, Law of the People's Republic of China on Safeguarding the Consumer Rights* and *Interests, Tort Liability Law of the People's Republic of China,* and *Patent Law of the People's Republic of China.*

4.1 Guarantee the Safety and Quality of Products and Services

The Group has established the Quality Assurance Department to manage and monitor product quality and a drug quality management system is built based on local laws and regulations as well as the GSP's requirements, covering the processes of quality verification, procurement, storage and etc. to ensure its product's safety and quality. The Group has issued a series of documents concerning its quality management system, departments and positions responsibility, operation procedures, archives and etc. Such documents include but are not limited to: *Regulations on Drug Procurement, Regulations on Drug Check and Acceptance, Regulations on Drug Removal, Transportation and Distribution, Regulations on Drug Storage, Regulations on Quality Inquiry Management System, Regulations on Quality Complaints*, and *Regulations on Drug Expiration Date Management.*

The finished products promoted and sold by the Group are mainly manufactured in the countries of manufacturing origins such as Germany, Denmark, the United Kingdom, France and China to maximally ensure product quality, with a small fraction of the rest being self-produced. All products promoted and sold by the Group are registered and approved by NMPA; all subsidiaries with core business in pharmaceutical promotion and sales are GSP certified; all subsidiaries with core business in pharmaceutical manufacturing are GMP certified.

For self-produced products (during the Reporting Period, self-produced products have only accounted for 3.9% of the Group's sales excluding the effect of the "two-invoice system"), the Group conducts strict inspection and acceptance of raw materials, including information review and sampling. Raw materials will only be adopted after examination passed, the whole process of which is monitored by the specialized staff. The Quality Assurance Department is responsible for quality inspection and control of raw materials and finished products sampling. Qualified inspection equipments are used for inspecting each raw material and finished product, after which the Quality Assurance Department will issue an Inspection Report for the approved qualified products to ensure compliance with national standards for drugs. In case of unqualified raw materials and finished products, the Group will deal with them as per the procedure on unqualified product management, and set up a special investigation team for cause investigation and correction at the same time.

When the procured finished drugs arrive, the Quality Assurance Department will conduct strict inspection and acceptance as per GSP requirements, and review the official product inspection reports (such as the Custom Clearance Form, Import Inspection Report and Manufacturer Inspection Report) to ensure their quality compliance with national requirements. Once a quality deficiency is found, the Quality Assurance Department will submit relevant evidences to the supplier in written report and immediately shut down the sale by locking-in and freezing the unqualified products according to the GSP management system. When products are confirmed as unqualified by the Quality Assurance Department, the Storage and Transport Department will be immediately informed to transfer the products to the "unqualified zone" with separated storage areas. These products will be recalled, returned to the supplier, and applied to be discarded or destroyed after evaluation if necessary.

The Group owns twenty-two warehouses in Guangdong Province, Hebei Province and Hunan Province for the storage of qualified products. The Storage and Transport Department of the Group is equipped with drug maintenance staff to make sure the storage and maintenance of the drugs is strictly following the regulations including *Regulations on Drug Storage* and *Regulations on Drug Maintenance.* The maintenance staff constantly monitors the warehouse temperature and humidity and the product storage conditions, conduct regular inspections on and maintenance of facilities and equipment, and report to the management regularly, to ensure the products are stored in an environment that meets their quality characteristics. Before delivery and sales of the finished products, the Storage and Transport Department conducts an ex-warehouse check based on regulation requirement, to ensure package integrity and product safety. During the Reporting Period, the Storage and Transport Department has improved related documentation for the system and strengthened relevant employee training, with regular inspections on the implementation conditions. Some improvements have been achieved in drug placement, scattered goods handling, handling management and warehouse management.

The Group has established *Provisions for Label Control and Management* to ensure the drug classification and package labeling meet the local laws and regulations, and the *Operation Procedure of Design, Review and Approval of Printing Packaging Materials* has been formulated to ensure the label compliance with registration approval requirements. All the Group's advertising strictly abides by national requirements and is only published in professional magazines designated by the National Health Commission and NMPA after being inspected and approved by the Provincial Ministry of Health. The Group has also issued the *CMS Speaker Regulations* to provide guidance on writing and reviewing promotional materials to ensure the professionalism and compliance of promotional material.

4.1.1 Customer Complaints

The Group provides specialized reporting channels and methods for drug quality complaints and adverse reactions/events. Consumers can complain or report to the Group via telephone, fax, email and etc. The Quality Assurance Department oversees product quality complaints and has established the *Provisions for Quality Complaints* and *Operation Procedures for Quality Complaints* to provide detailed guidance for handling product quality complaints. Complaints are recorded in the complaint record and maintenance system and are dealt with after classification according to the level of risk of the quality defects to consumers and the Group. Minor complaints that are not related to product quality and quality query should be responded by reply and explanation in a timely manner; important complaints concerning product quality should be reported to the relevant responsible department for proper solutions and timely responses; severe complaints should be reported to the responsible management of companies and be investigated and assessed. Once a severe complaint is confirmed, the product should be suspended from sales or utilization, and the product recall procedure can be triggered.

The Group has set a pharmacovigilance team to collect, handle and report adverse reactions/events and a series of standardized operation regulations such as the *Management Regulations on Drug Adverse Reaction Reporting and Monitoring, Operation Regulations on Drug Adverse Reaction Reporting and Monitoring.* Apart from visits and complaints from patients and doctors, the Group encourages related department to actively collect and report adverse reactions/events. The pharmacovigilance team should record in detail, analyze and deal with reported adverse reactions, timely and truthfully record adverse reactions/events, and investigate, analyze, assess and summarize each case. If drugs with potential safety risks are found, they should be dealt with as per the *Operation Regulations on Drug Safety Signal Detection.* Meanwhile, the Group should not only communicate closely with domestic and overseas drug manufacturers and the NMPA, but also revise domestic labels and instructions to ensure product safety when necessary.

During the Reporting Period, the Group's response and handling rate for product and service quality related complaints from customers have achieved 100%.

4.1.2 Product Recall

In order to recall drugs circulated in the market with safety risks based on the relevant regulation requirements, in the shortest time with minimal adverse impact, the Group has established the *Provisions on Drug Recall* and *Operation Procedures on Drug Recall.* If a recall happens, the Quality Assurance Department should establish a recall work team to draft a recall plan and issue drug recall notices. The involved departments should timely inform relevant customers and all organizations and individuals that may be related to drug sales and usage in order to recall the drugs as quickly as possible, and the stock should be sealed up at the same time. Recalled products should be marked and separately stored in the "returned goods" area; the Quality Assurance Department should conduct a comprehensive inspection on the recalled drugs, analyze the quality conditions and write a summary report; and the Quality Assurance Department should submit related information as required by the local Drug Administration Department in a timely manner.

During the Reporting Period, the Group has not received any sold and delivered product recalls due to safety and health problems.

The Group's 2018 product and service quality data is shown below:

Table 4 CMS's 2018 Product and Service Quality Data

	Unit	Product and service quality data
Response and handling rate for product and service quality related complaints	%	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0

4.1.3 Customer Privacy

The Group attaches great importance to consumer privacy protection and maintains the confidentiality of nonpublic information on behalf of customers, suppliers, employees and other stakeholders of the Group conforming to related laws and regulations as well as applicable contracts. Both the *CMS Employee Code of Professional Ethics* and *CMS Employee Manual* specify requirements on the third-party privacy protection. Along with relevant training and confidentiality agreements, the importance of confidentiality duties and the legal consequences of confidentiality violation are also delivered and emphasized. Moreover, the Group's business management system manages information access and maintenance with limited authorization. Non-authorized employees cannot use, export or copy customer information.

4.2 Protection of Intellectual Properties

The Group deems intellectual properties (such as trademarks, patents, confidential information and production knowhow) as important assets of the Group and regulates employee conduct concerning intellectual property protection by the *CMS Employee Manual.* The Group is dedicated to meet China's unmet medical needs, and mainly through collaborative R&D to acquire various patent protected innovative products' assets or rights in China and some Asia-Pacific countries. Moreover, the names, logos and products of the Group are all equipped with registered trademarks and the related use is regulated by the *CMS Code of Trademark Use*. The in-house developed enterprise management system is protected through software copyright. The Group protects the existing intellectual property rights and promptly prevents violation of those by monitoring registered trademark use and regulating external trademark and patent operation in a legal and authorized manner.

During the Reporting Period, the Group has not violated any related laws or provisions that significantly impact the Group in the aspects of health, safety, advertising, labels, privacy, intellectual property and remedial measures for products and services.

5. People-oriented Practice

The Group deems its employees as the most valuable assets based on the concept of "strivers as the foundation". The Group ensures compliant employment, protects employee health and safety, promotes employee equality and diversity, and constantly improves its employee training and development systems to provide a good working environment and atmosphere for employees. With its well-organized human resources management system covering employment, training, talent development and employee relations, the Group strives to make sure the smooth process of its organization, talent and company culture management.

In terms of employment (including remuneration, demission, recruitment, promotion, working hours, vacation, equal opportunity, diversity, anti-discrimination and other welfare), occupational health and safety as well as labor codes, CMS strictly conforms to the related national laws and regulations, which include but are not limited to the *Labor Contract Law of the People's Republic of China, Labor Law of the People's Republic of China, Regulations on the Implementation of the Labor Contract Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Minimum Wage Provisions, Rules of the State Council on Working Hours of Workers and Staff Members, Regulations Concerning the Labor Protection of Female Staff and Workers, Work Safety Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, Regulations on Work-Related Injury Insurances, Provisions on Female and Underage Staff and Workers Protection, Provisions on the Prohibition of Child Labor* and *Law of the People's Republic of China on the Protection of Minors.*

5.1 Compliant Employment

The Group conducts compliant recruitment of labor, and commits to sign, modify, rescind or terminate the contracts with employees as per national laws and regulations and company rules and requirements. The employment relationship takes effect upon signing the labor contract out of free will and agreement by both parties. The Human Resources Department of the Group checks the ID of each staff to ensure they are aged over 18 to assure the compliant employment. The Group labor contract stipulates the authenticity of candidates' personal information and the Group reserves the right to terminate the contract if such information is found to be false based on the Provisions of the Company. Paid vacation, working hours and work attendance regulations are clearly specified, explained and are implemented as per the regulations on implementation of work attendance rules and local employment laws. Employees are entitled to compensation payment or vacation for working non-office hours as per labor laws and regulations. During the Reporting Period, the Group has strictly implemented measures including but not limited to the above-mentioned methods to prevent the legal risk of child labor and forced labor.

The Group, abiding strictly by national and local laws and regulations, has established the *CMS Employee Manual* covering employment, performance, employee relations and remuneration as the guidance for employees to follow and enhance their sense of responsibility and belonging.

The Group has adopted various recruitment channels, such as recruiting websites, campus job fairs, headhunters and internal referrals, to attract and retain suitable and outstanding talents with competitive remuneration packages, a good working environment and a comprehensive welfare system. The Human Resources Department pays close attention dynamically and reviews the Group's salary level to ensure fair treatment and remuneration for employees. During the Reporting Period, the Group has carried out a comprehensive remuneration reform to improve company competitiveness in the job market. The reform includes rationalization and classification of posts, salary level charts formulation through survey, and determination and adjustment of employee salary based on salary level charts and individual assessments. Moreover, the promotion within the Group is competitiveness-oriented and is regulated by internal regulations, such as the *Regulations on Selection, Appointment and Removal of Managerial Posts of Direct Sales Regions.* Employees may apply for managerial posts through internal competition and referrals with the review and approval of relevant leaders. The Human Resources Department regularly publicizes appointment and removal notices to ensure fairness and effectiveness.

The Group, abiding strictly by laws and regulations, provides employees with five statutory social insurance schemes (basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance) and housing funds, with extra benefits of housing subsidies, commercial accident insurance, physical examinations, employee community activities, overtime dinners, sports activities, holiday presents and etc. The Group also recognizes the contributions of key employees with the *CMS Employee Benefit Scheme* which rewards employees who have made continuous service and significant contributions to the Group's annual business growth, and the "Hall of Honor Awarding System" to select and reward excellent promotional staff with bonus.

The Group strives for a fair and diversified working environment with mutual respect, and adheres to the principles of anti-discrimination and equal opportunity in human resources and recruitment decisions. It seeks to prevent any non-work-related factors such as age, gender, nationality and marital status from affecting employee welfare, training, promotion and demission. The rights and interests of female employees are protected strictly as per national laws and regulations. Female employees of the Group are entitled to statutory holidays during pregnancy, maternity and lactation, and are given reasonable care and consideration. Equality-based communication is encouraged; employees may communicate with the management via the internal ERP platform, telephone, email, face-to-face meeting and etc. The Human Resources Department should conduct interviews with new employee, regular employee and dismissed employees when necessary to understand their concerns and working satisfaction, and report these findings to the managerial level. Employees are encouraged to report discriminatory, harassment and other improper behaviors to the Human Resources Department. If the case is found to be true after investigation, punishment shall be given according to the seriousness of the case, to prevent discrimination and inequality.

5.2 Training and Development

The Group's human resources management system consists of Training Division taking charge in new employee training, on-the-job training and training operation. The Training Division formulates its annual training plan and organizes various training activities that combined with the Group's development strategies and departmental requirements, in order to empower and enable employees with capability improvement. The training system is completed and regulated by the *Provisions on Employee Training and Career Development, Provision on Employee Training Process,* and *Provision on Internal Speaker Training*, providing essential continual education and necessary support for employees at every stage of their career, to push forward their improvement.

A training base is provided for a focused training environment and atmosphere; digital and mobile technologies and tools are employed to extend the training scope and facilitate flexible, convenient and more effective learning. Besides irregular training for business development and working process modification, and stipulated safety and fire protection training, the Group organizes at least one large-scale training session for fresh employees each year, and provides customized training based on their post functions. The training content mainly includes but is not limit to: company culture, company rules and regulations, product knowledge, compliance culture and GSP-related regulation to enhance the fresh employees' better integration to the Company and understanding about their posts. Professional promotion related posts are subject to advanced trainings focusing on thinking methods, presentation material making, presentation skills and etc. Employees involved in production business are educated on GMP-related systems, product quality, production safety, pharmaceutical regulations, etc.

In addition, for management associate trainees, the Group has a multi-level training system to help them clarify their career path and forge related skills and abilities; for the special operation personnel, the Group stipulates external training and examinations on special equipment operation. The Group also encourages employees to attend external training related to their work to maximize their skills improvement and enlarge their knowledge base.

During the Reporting Period, the Group has achieved 100% employee training coverage with fully covering every categories of employee.

5.3 Care for Employees

5.3.1 Occupational Health and Safety

The Group strictly abides by national laws and regulations on employee occupational health and safety, provides a healthy and safe working environment for employees, reinforces the implementation of occupational health monitoring measures, and improves the management on prevention and treatment of occupational diseases.

The Group achieves the improvement of the production safety by compliance with and implementation of the *Comprehensive Emergency Plan for Production Safety Accidents, Three Provisions on Production Safety, Investigation and Treatment Plan for Safety Hazards* and etc. A lead group on production safety inspection has been established to implement safe production practices; safety warning signs and first-aid boxes are provided in proper locations; employees receive relevant training on production safety and occupational health and safety, etc. Employees holding posts with healthy and safety risks are provided with personal protective equipments as per national laws and regulations to minimize safety risks. For example, dust related posts are provided with dust masks, and noise related posts are provided with earplugs, ear masks and other protection equipment. During the Reporting Period, the Group provided occupational health checks for all the employees holding posts with healthy and safety risks according to the related laws and regulations.

The Group has formulated the *CMS Office Building Emergency Plan* and regularly organizes fire safety related emergency drills to raise employee safety awareness, improve their self-protection abilities, and prevent accidents. The Group provides annual physical checks for each employee. During the Reporting Period, 100% employees had health checks of their own free will. Meanwhile, employee health risks are also reduced through daily trifles, such as changing drinking water filters on a regular basis, maintaining the air-condition system, carpet cleaning and disinfection, insect and rat extermination, etc.

During the Reporting Period, the Group has no work-related deaths.

The Group's 2018 employee health and safety data is shown below:

Table 5 CMS's 2018 Employee Health and Safety Data

	Unit	Health and safety Data
Work-related deaths	Person	0
Proportion of employees had health checks of their own free will	%	100

During the Reporting Period, the Group has not violated any laws or provisions that significantly impact the Group in terms of employment, occupational health and safety, and labor regulations.

6. Cooperation and Mutual Benefits

Effective cooperation with and management of suppliers and distributors are vital to the Group as they reasonably improve product and service quality as well as reduce the operational costs and cooperation risks, helping build the brand image and pushing forward the development of the Company. The Supply Chain Management Department of the Group is responsible for planning and managing procurement and order, international and domestic logistics, warehouse management, sales consignment, etc. to ensure the high operational efficiency of each section of the supply chain. The Supply Chain Management Department has constructed a relatively comprehensive supplier management system by making supply plans based on sales forecasts of products and integrating supervision and support to suppliers from the Quality Management Department.

Through the long-term communication and business contacts, the Group has forged sustainable and stable strategic relationships with suppliers and distributors, and established good communication mechanism with open dialogue and mutual trust. At the same time, during the cooperation, the Group has fully communicated problems within a reasonable scope with suppliers and actively helped with process reform, so as to realize mutual benefits and risk sharing.

6.1 Supplier Management

Finished drugs account for the majority of the Group's procurement. Suppliers are regulated with strict admittance criteria and inspected on factors including but not limited to: operation and production qualification, scale and history, industrial reputation and competitiveness, production conditions, product category, quality and prestige, environmental protection, compliance, social responsibility, and etc. Suppliers are required to provide qualification documents including their Drug Production License or Drug Operation License and Business License to ensure the compliance and effectiveness of its operation. Operation and production that is compliant with local related regulations are specified in the supplier agreements or contracts to prevent social related risks of the supplier management; at the same time, when supplier conditions are similar, the nearest supplier with more convenient transportation is preferred to reduce environmental pollution from transportation. Moreover, the Group ensures a fair and open procurement mechanism by bidding, regulates procurement activities with the *Regulations on Drugs Procurement, Regulations on Procurement Planning and Review,* and *Regulations on Auditing Supplier Salesperson Qualification,* and ensures the procurement plan complying with operation demands. The *Code of Professional Ethics of CMS* provides policy regulations on the open, fairness and transparency of the procurement system.

The finished drugs the Group promotes and sells are introduced through asset purchase or long-term sales agreement. And the production is mainly outsourced to designated factories or original manufacturers. Therefore, the Group is able to sustain long-term stable strategic relations with finished product suppliers without frequent changes or adjustments. The Group regulates supplier management with the *Regulations on First-time Supplier Qualification Review* and *Operation Provisions on Internal Quality Audit.* First-time suppliers need to go through a comprehensive qualification review coordinated by the Supply Chain Management Department and Quality Assurance Department, and will only be qualified as the Group's supplier if they pass the evaluation, then the further purchase is executed by the Supply Chain Management Department. Moreover, the GSP management system automatically monitors supplier period of validity certifications and blocks suppliers automatically when their certifications expire, purchase order with these suppliers can only be updated or added until the relevant documents is renewed. The Supply Chain Management Department and Quality Assurance Department review supplier quality at least once a year, and build supplier quality review archive, and form the final *List of Qualified Suppliers* after deciding to retain or remove the supplier.

All production material suppliers are selected as per the *Operation Provisions on Material Supplier Assessment and Approval*. Such qualified suppliers should meet the following requirements: complete and valid qualifications, qualified products, reasonable pricing, good production environment and smooth operation of workshops, etc. The list of qualified suppliers will be determined after assessment, auditing and executive review of each supplier. The Group maintains at least two qualified suppliers for any production material to prevent material shortage under emergency. Moreover, the Group also classifies materials according to the level of importance and manages qualified suppliers by different levels with a list of core suppliers to ensure the reasonable distribution of monitoring resources and maximize the efficiency of supplier chain management.

The Quality Assurance Department conducts annual assessments and renews the qualified supplier list based on annual supply quality and relevant cooperation conditions. If the materials provided by the qualified supplier do not conform with the Group's requirements in the official procurement, the Group shall timely notify suppliers on return of unqualified products, the expenses of which and the Group's incurred financial loss shall be all assumed by the supplier; if the supplier is shut down or production is ceased, or quality problems occur three consecutive times, or the supplier fails to implement procurement within three years, with the written application from the supply chain-related departments and review by the Quality Assurance Department, the unqualified supplier shall be deleted from the qualified supplier list and procurement cooperation shall be ceased. The Group organizes on-site product quality auditing on core suppliers at least once a year, and applies to cease procurement from those with critical defects or high quality risks. During the Reporting Period, there has been no significant product supply delay from the Group's suppliers.

The Group's 2018 supplier data is shown below:

Table 6 CMS's 2018 Supplier Data

	Unit	Number of supplier(s)
Total suppliers	Number	87
– Mainland suppliers	Number	75
– HK SAR, Macau SAR, Taiwan and overseas suppliers	Number	12

6.2 Distributor Management

Distributors are maintained and managed by the Quality Assurance Department and Commercial Department of the Group, and the *Selection and Assessment System of Distribution Cooperative Partners* is constituted to support related work. The distributors' screening standards include basic criteria (such as GSP qualifications, storage capacity, distribution capacity and working capital), cooperation willingness, distribution channel coverage, market control, brand image, etc. fully guaranteeing the distributors' qualifications and compliance level, and preventing product quality and integrity from negative impacts during the distribution. The Group prefers large-scale distributors with high distribution channel coverage in sales regions to reduce the negative impact on environment during the logistics.

7. Environmental Protection

With the guiding principle of environmental protection, the Group has always been striving to integrate the concept of sustainable development into its pharmaceutical operation, pharmaceutical manufacturing and agriculture and livestock business[1]. During the development and operation of business, the Group strictly abides by related national laws, regulations and standards on environmental protection, such as *The Environmental Protection Law of the People's Republic of China, Environmental Protection Tax Law of the People's Republic of China, The Environment Impact Assessment Act of the People's Republic of China,* and *Emergency Management Measures for Environmental Emergencies;* the relevant internal management procedures have also been formulated based on practical conditions of the Group, with strict control of emission and reasonable use of energy and resources, so as to minimize the impact on environment and natural resources from the business operation and contribute to the construction and sustainable development of the beautiful China.

[1] As at 31 December 2018, the products produced by agriculture and livestock business of the Group has only been consumed internally without contributing revenue of the Group.

7.1 Emission Control

7.1.1 Solid Waste Management

The Group strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution, Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes,* and *Standard for Pollution Control on Hazardous Waste Storage,* and has adopted internal policies and regulations for solid waste management to reduce its generation and emission, and the subsequent environmental impact. Internal policies and regulations of the Group include *Procedure of Hazardous Solid Waste Management, Procedure of Hazardous Chemical Management, Provisions on Quality-control Laboratory Waste Management* by Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), *Regulations on Company Environmental Protection , Regulations on Chemical Wastes,* and *Regulations on Toxic Products* by Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Hebei Xili"), *Regulations on Hazardous Waste* by Pingshan Manufacture Base of Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Pingshan Factory"), and *Procedure of Solid Waste Management* by Hunan Kangzhe Agricultural and Livestock Development Co., Ltd. ("Hunan Agriculture and Livestock").

Pharmaceutical Promotion and Network Management Business

The majority of the solid waste generated by pharmaceutical promotion and network management business is office and household garbage, which is transported by the property management company of the office locality after being collected and classified by the Group. The Group has implemented the following measures to reduce the office and household waste:

- Reinforce waste classification and recycle the reusable waste in the office;
- Encourage employees to reduce the use of disposable products such as plastic tablewares;
- Encourage paper saving by minimizing unnecessary printing and using paper on both sides for printing.

Pharmaceutical Production Business

The solid waste generated by pharmaceutical production business including waste laboratory chemical reagents generated during drug testing procedures, herb residues generated in production, sewage sludge generated by the sewage treatment system, and office and household waste.

To reduce the generation of waste laboratory chemical reagents, the Group regulates the ordering of chemical reagents for drug quality testing as per actual demands, controlling unnecessary usage and waste; after drug testing, the quality inspector shall collect the waste chemicals within specified containers according to their types and conditions, and regularly send to qualified institutes for concentrated treatment.

The herb residues generated during drug production are mainly particle filter residues (lignin) and a small amount of insoluble extractives, both of which are non-hazardous waste. The treatment measures adopted by the Group include:

- Transfer to Hunan Agriculture and Livestock farm as fertilizers (Kangzhe Hunan);
- Transfer to clean energy companies as fuels and a small quantity for farmers' livestock feed (Hebei Xili).

All drug production plants of the Group are equipped with sewage treatment system for the treatment of production sewage and domestic sewage. Sewage sludge from water treatment is non-hazardous waste and will be dried and handed over to sanitation department for unified treatment with household garbage. In order to reduce sewage sludge, Kangzhe Hunan has adopted an anaerobic method of biochemical treatment for the second phase of the sewage treatment facilities newly built in 2018, and will considerably reduce sewage sludge generation compared to the aerobic method adopted for the first phase of sewage treatment facilities.

The treatment measure of office and household waste adopted by all drug production plants of the Group is sending it to local environmental protection departments for unified treatment after collection.

Agriculture and Livestock Business
The solid wastes generated by agriculture and livestock business of the Group mainly include dead twigs and leaves generated by fruit and vegetable plantation, animal excrement generated by livestock breeding, and office and household waste.

The dead twigs and leaves are stored in containers first together with herb residues transferred from Kangzhe Hunan, and then mixed and fermented with organic fertilizers at a certain proportion when needed, so as to make them becoming the fertilizer for corps, and realize the cyclic utilization of organic wastes.

Hunan Agriculture and Livestock adopts automatic collection devices to collect animal excrement and transport them to an organic fertilizer fermentation tank. The mixture is then made into organic fertilizer through bio-fermentation for agricultural plantations. In addition, hen houses and pigpens are cleaned every day, and the cultivation area goes through comprehensive sanitation inspections every week, so as to sustain an environment of high sanitation quality for the farms.

Hunan Agriculture and Livestock arranges specified staff to collect office and household waste and transport it to designated local garbage collection points. To reduce the household waste generation, Hunan Agriculture and Livestock stipulates the monthly quota of waste bags and sanitation papers for each department, encourages waste classification, and recycles reusable waste such as bottles and paper.

The solid waste emission data of CMS in 2018 is shown below:

Table 7 CMS's 2018 Solid Waste Emission Data

	Unit	Volume	Intensity[2]
Hazardous waste	Ton	0.2	0.00003
Non-hazardous waste	Ton	1,782.0	0.29
– Herb residue	Ton	1,678.5	0.27
– Sewage sludge	Ton	10.7	0.002
– Household garbage	Ton	92.8	0.02

7.1.2 Air Pollutant Management

The Group strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution* in air pollutant management. Gas emissions conform to the requirements of *Comprehensive Discharge Standard of Atmospheric Pollutants* and *Emission Standard of Boiler Air Pollutants.* The Group has also implemented internal management policies to reduce air pollutant emissions, such as *Exhaust Gas Emission Management Procedures* (Kangzhe Hunan)*; Operation Regulations of Steam Boiler, Regulations of Boilers Management* (Hebei Xili)*,* and *Operation Regulations of Exhaust gas* (Pingshan Factory), etc.

To reduce gas emissions during boiler operation, the Group continued to use clean energy for boiler operation: Kangzhe Hunan uses natural gas, and Hebei Xili uses alcohol-based liquid fuel to run the boilers. At the same time, the Group continuously optimizes its production plans to improve boiler operation efficiency to save energy and reduce emissions. Besides, Pingshan Factory has installed activated carbon absorption and wet sprinkler devices on the emission funnels of the Active Pharmaceutical Ingredient workshop, and Kangzhe Hunan laboratory has installed neutralization spray, cross-washing and dehydration and mist-off devices to further reduce atmospheric impact of gas emission.

The air pollutants generated during the Group's production process include Sulfur Dioxide (SO_2), Nitrogen Oxide (NO_x) and Particulate Matter (PM).

The detailed emissions data of CMS in 2018 is shown below:

Table 8 CMS's 2018 Air Polluant Emission Data of Boiler

	Unit	Volume	Intensity
Sulfur Dioxide (SO_2)	Kg	237.1	0.04
Nitrogen Oxide (NO_x)	Kg	2,350.4	0.38
Particulate Matter (PM)	Kg	354.7	0.06

[2] All the indicators' intensity data is calculated as per sales revenue, shown as following: total emissions and usage amount divided by sales revenue (unit in RMB million) after excluding the "two-invoice system" in the Reporting Period.

7.1.3 Green House Gas (GHG) Management

The Group is fully aware of the impact of climate change on the natural ecosystem, with a series of measures to reduce direct and indirect GHG emissions, which produced significant outcome that GHG direct emission was considerably reduced. The relevant information will be detailed in the *Management of Energy and Resources* section. Besides, the Group also plants trees in and around production plants to mitigate the environmental impact from GHG emissions.

A direct source of the Group's GHG emissions comes from the energy consumption of natural gas, alcohol-based liquid fuels, gasoline, diesel oil and etc.; an indirect source is outsourced electricity.

The detailed emission data of CMS in 2018 is shown below:

Table 9 CMS's 2018 GHG Emission Data

	Unit	Volume	Intensity
Direct GHG emission (Scope 1)[3]	Ton CO_2e	5,566.7	0.91
– Natural gas	Ton CO_2e	2,063.0	0.34
– Alcohol-based liquid fuel	Ton CO_2e	3,317.7	0.54
– Gasoline	Ton CO_2e	176.5	0.03
– Diesel oil	Ton CO_2e	8.1	0.001
– Liquefied gas	Ton CO_2e	1.4	0.0002
Indirect GHG emission (Scope 2)	Ton CO_2e	4,243.1	0.69
– Outsourced electricity	Ton CO_2e	4,243.1	0.69
Total GHG emission (Scope 1+2)	Ton CO_2e	9,809.8	1.60

7.1.4 Wastewater Management

The Group strictly abides by the *Law of the People's Republic of China on the Prevention* and *Control of Water Pollution,* and also has been implementing internal policies for wastewater management, such policies include: *Procedure of Sewage Management* (Kangzhe Hunan), *Operation Regulations of Wastewater* (Hebei Xili), *Operation Standards of Usage, Maintenance and Repair of Sewage Plants* (Pingshan Factory), *Standard Procedure of Sewage Management* (Hunan Agriculture and Livestock) and etc.

Pharmaceutical Promotion and Network Management Business

The wastewater generated by pharmaceutical promotion and network management business is domestic wastewater, which is handled by the property management company of the office building. Such wastewater directly enters building sewage pipelines leading to municipal sewage networks for the centralized treatment. To reduce domestic wastewater generation, water conservation signs are posted on office walls, and water taps are inspected by specified staff during holidays and vacations to prevent leaks. Leaks will be fixed in time if being found.

[3] During the Reporting Period, the group did not replace air conditioning refrigerants, resulting in zero refrigerant consumption and no contribution to direct GHG emission (Scope 1).

Pharmaceutical Production Business

The wastewater generated by the Group's pharmaceutical production business includes industrial and domestic wastewater. All drug production subsidiaries of the Group achieved the diversion of the rainwater and sewage, and are equipped with separate treatment systems for them. The wastewater generated by Kangzhe Hunan and Hebei Xili goes through sewage treatment systems for compliance with *Wastewater Quality Standards for Discharge to Municipal Sewers and Integrated Water Discharge Standard* before being released to municipal sewage pipeline network. The wastewater is then treated by local sewage plants to meet relevant standards and released to natural water body; the wastewater generated by Pingshan Factory goes through sewage treatment systems to meet Grade IA standard of *Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants* and stipulated indices of *The Reuse of Urban Recycling Water- Standard of Water Quality for Urban Miscellaneous Water Consumption* before being reclaimed and re-utilized as cleaning water or greening irrigation water, improving wastewater utilization rate and conserving water resources. In addition, the Group also has upgraded and expanded its sewage plants to maintain its sewage treatment capacity in line with its business scale.

Agriculture and Livestock Business

The domestic wastewater generated by the Group's agriculture and livestock business includes cultivation and domestic wastewater, both of which go through filtration and settlement in protective trenches and settlement pools before entering local sewage plants for treatment. To reduce wastewater generation from the very beginning, Hunan Agriculture and Livestock reinforces water conservation education among employees and punishes water wasting behavior; the cultivation department has upgraded the Group's livestock drinking water devices to automatic water-conservative devices; the plantation department has upgraded the irrigation systems of vegetable and fruit greenhouses to automatic irrigation and fertilization integrated systems. In addition, grass is also planted around animal farms and production areas to purify outdoor residual manure water and sewage, to reduce their impact on peripheral communities.

The major pollutants in the wastewater discharged by the Group are Ammonia Nitrogen (NH_3-N) and Chemical Oxygen Demand (COD).

The Group's 2018 wastewater and pollutant components discharge data is shown below:

Table 10 CMS's 2018 Discharge Data for Wastewater and Pollutant Components

	Unit	Volume	Intensity
Wastewater	m^3	86,539.4	14.11
Ammonia Nitrogen (NH_3-N)	Ton	0.1	0.00002
Chemical Oxygen Demand （COD）	Ton	0.9	0.0001

7.1.5 Noise Management

The operational noise generated by the Group comes from machine operation during drug production. Regular noise inspections on drug production are organized to ensure compliance with the *Emission Standard for Industrial Enterprises Noise at Boundaries.* During the Reporting Period, according to monitoring results, the noise level of the Group's production plants was compliant with the standards and did not have an obvious negative impact on the peripheral environment.

7.2 Management of Energy and Resources

The Group strictly abides by *Law of the People's Republic of China on Conserving Energy, Law of the People's Republic of China on Promoting Clean Production, Circular Economy Promotion Law of the People's Republic of China,* and other related national laws and regulations, adheres to the concept of sustainable development throughout the whole process of production and operation, establishes and implements internal management policies such as the *CMS Environmental Management Regulations and Regulations on Environmental Protection* to minimize the consumption of energy and the resources, as well as the impact of operation on the environment and natural resources.

7.2.1 Electricity Conservation

The electricity consumption of the Group comes from: office operation, drug production, agriculture and livestock breeding. The electricity conservation measures adopted by the Group include:

- Provide employees with training on environmental protection to raise their awareness of energy saving and environmental protection;
- Post slogans in offices and factories to promote energy conservation and emissions reduction;
- Use LED energy-saving lights in offices except for a few artistic chandeliers for decoration;
- Reduce lighting hours by requiring employees to turn off lights when leaving, avoiding leaving lights on for long hours;
- Apply insulating films on office glass curtain walls to reflect outdoor lights and heat, reduce indoor temperature, thus reduce air-conditioners' operation hour;
- Set the air-conditioners at 26℃ and post reminder stickers on the air-conditioners' switch;
- Conduct daily inspections on lighting and air-conditioners, and allocate staff to ensure that reasonable use of lighting and air-conditioners by overtime workers during weekends and holidays;
- Turn on the "night mode" of air-condition in proper occasions to save energy;
- Strictly prevent energy waste due to steam leakage in all forms such as "running and dripping" in production plants;
- Adopt frequency control for engine with long stand-by time in production plants;
- Hunan Agriculture and Livestock arrange weekly inspections of electricity consumption by specified staff, and convert the results into employee monthly KPIs to supervise and encourage employee in energy conservation.

7.2.2 Gasoline Conservation

The Group's gasoline consumption is from the use of vehicles for business. The Group has established *Regulations on Employee Business Trips* to regulate the use of company's vehicles. At the same time, company vehicles are inspected and maintained by designated staff on a regular basis, and drivers are trained to use the vehicles properly. In addition, The Group also maximizes the use of telephone/video conference system to reduce the demand of company's vehicles for off-site meetings, so as to reduce gasoline consumption. As for necessary transportation, the Group encourages employees to reduce car use and convert to green commuting. For non-emergency, the Group encourages employees to travel together and reduce the frequency of the vehicles usage. Employees work in Hunan Agricultural and Livestock try best to commute by electric buses together.

7.2.3 Diesel Oil Conservation

The Group's diesel oil consumption is from vegetable and fruits greenhouse insulation equipment and diesel agricultural vehicles of the agriculture and livestock business, and the emergency electricity generation by backup generators for drug production business. To reduce diesel oil consumption, Hunan Agriculture and Livestock has optimized the traditional vegetable and fruits greenhouses by dividing them into smaller ones and provide double-layered insulation sheets, which enhance their own insulation performance, and thus replace the use of thermal insulation equipment, conserving a certain amount of diesel oil. In order to control the diesel oil consumption, Hunan Agriculture and Livestock also stipulates individual liability for agricultural diesel vehicle usage, and excess consumption should be reasonably explained and purchased by designated staff. Besides, the Group regulates the diesel generator operation as per practical usage demand and conducts regular maintenance to ensure reasonable and efficient consumption of diesel oil.

7.2.4 Boiler Fuel Conservation

The consumption of boiler fuel of the Group is only for drug production. To ensure efficient fuel conservation, the Group has established boiler management policies including *Steam Boiler Operation Provisions and Boiler Management Provisions.* At the same time, the drug plants conduct regular inspection and preventive maintenance on steam pipes and equipment to control steam leakage in all forms, such as "running and dripping", so as to improve boiler using efficiency. Besides, the drug plants continuously optimize their production plans by concentrating production schedule, in order to prevent long-time yet low-efficiency boiler operation, reducing unnecessary fuel consumption.

7.2.5 Water Conservation

The Group's water consumption includes: production and washing water of drug plants, irrigation for agricultural land, livestock cultivation, and domestic use by employees. The sources of water include municipal tap water, underground water and natural precipitation collection, and there is no difficulty in finding suitable water sources so far. The Group has consistently promoted water conservation and taken various water conservation measures:

- Conduct timely maintenance of the water supply system to prevent leaks;
- Reuse cooling water. See the case of *Cooling water reclamation facilities of Hebei Xili* for more details;
- Pingshan Factory utilizes reclaimed water after compliant treatment by the sewage treatment system;
- Hunan Agriculture and Livestock repairs ditches and pipelines to collect rainwater, and adopts drip-irrigation.

[Case] Cooling water reclamation facilities of Hebei Xili

Hebei Xili renovated the condensate water pipelines of its workshops for steam condensate water collection. The cooling water was then transferred into soft water boiler tanks for boiler operation and water conservation is realized.

Water and energy conservation effects:
1. The recycled condensate water (reclaimed water) accounts for half of the daily water consumption by the boiler, which is a huge reduction of water consumption;
2. Using reclaimed water can reduce raw water treatment, prolong the utilization period of ionic exchanging resin and conserve water treatment reagents during resin regeneration;
3. The temperature of reclaimed water is relatively high, thus conserving energy for boiler water heating.

7.2.6 Packaging Material Conservation

The Group has established *Material Distribution Regulations* for unified management of packaging materials, and *Quality Standard for Internal and External Packaging Materials* to specify the inspection, release and utilization of packaging materials. The Group has also adopted a series of measures for conservation of packaging materials, which include:

- Make procurement plans of packaging materials as per actual demand and strictly execute the plans;
- Arrange designated staff and storage space to realize locked storage, separate bookkeeping and acceptance and distribution tallies to ensure correct quantity of packaging materials, and prevent loss, outflow and waste;
- Deliver goods as per cargo packages with best efforts;
- Reduce the usage of overturn boxes;
- Recycle and reuse packaging boxes;
- Negotiate with drug suppliers for return and change of damaged packages;
- Employ reusable stainless-steel buckets for storage to reduce the use of disposable packaging materials;
- Hunan Agriculture and Livestock employs professional designer to design package with adhering to environmental protection concept, reasonably reducing waste of packaging materials.

7.2.7 Paper Conservation

The Group's paper consumption mainly comes from office operation. The measures the Group has implemented for paper conservation include:

- Review the content and format of documents before printing to reduce printing with mistakes;
- Except for official documents, use double-sided printing for internal documents;
- Use email as the main communication tool, and scan and convert paper documents into electronic files for emails delivery;
- Re-use single-side paper for scratch and printing of internal documents.

CMS's detailed energy and resources utilization data during the Reporting Period is shown below.

Table 11 CMS's 2018 Energy and Resource Utilization Data

	Unit	Consumption	Intensity
Conversion of electricity for comprehensive energy consumption	kWh	29,758,236.2	4,850.96
- Outsourced electricity	kWh	7,079,280.2	1,154.01
- Natural gas	m^3	954,116.0	155.53
- Alcohol-based liquid fuel	Ton	1,842.8	0.30
- Gasoline	Liter	77,640.0	12.66
- Diesel oil	Liter	3,111.6	0.51
- Liquefied gas[4]	Kg	480.0	0.08
Total water consumption	m^3	148,634.2	24.23
- Tap water	m^3	71,060.2	11.58
- Underground water	m^3	77,574.0	12.65
Total consumption of packaging material	Ton	544.1	0.09
- Paper	Ton	293.0	0.05
- Glass bottle	Ton	153.4	0.03
- Plastic	Ton	97.7	0.02
Office paper	Ton	8.1	0.001

7.3 Environment and Natural Resources

The main businesses of the Group are pharmaceutical promotion and network management, which have mild impact on the environment and natural resources. The Group has adopted measures to reduce office electricity consumption and greenhouse gas emission generated during operation of such businesses.

For drug production business of the Group, the Active Pharmaceutical Ingredients are mainly herbs and animal and vegetable proteins and production water mainly comes from underground water. The main environmental impacts of such business operation mainly include: production wastewater, exhaust gas, solid wastes, noise, and greenhouse gas emission generated by boiler operation and electricity consumption. The Group has adopted relevant measures to ensure high efficiency of energy and resources utilization, thus to reduce pollutant emission of all kinds.

The agriculture and livestock business of the Group also has a limited impact on the environment and natural resources, of which mainly comes from plantation irrigation water and breeding animal excrement. The Group collects and utilizes natural rainwater for irrigation, and has established double-layer protection for the livestock cultivation area, in order to minimize adverse impact on the ecosystem.

[4] During the Reporting Period, liquefied gas was only consumed by Hunan Agriculture and Livestock for its staff canteen.

8. Community Dedication

The Group attaches great importance to social contribution of the medical and health field, and pays active attention to the community interests of its company localities. The Group is driven by the goal of pushing forward medical progress and integrates local communities' demand into its goals and policies. Besides medical education-related work, the Group has also organized various public service activities in local communities.

8.1 Promoting Medical Progress Advancement

During the Reporting Period, the Group participated in various re-education works in the medical and health field. By promoting proper prescription concept and informing primary physicians of advanced therapies and treatment methods, the Group has promoted medical advancement with good social recognition.

During the Reporting Period, the Group organized various activities to promote the advancement of medical progress. With its contribution in medical and humanity fields, the Group was recognized as a "Humanistic and love Enterprise" by the China Medical Humanities Conference. Following are some of the activities that the Group participated in or sponsored:

- The Group and the Chinese Medical Association Digestive Diseases Branch specialized in the construction and cooperation with the Medical Humanities Collaboration Group. 9 medical humanities lectures were held nationwide and thousands of experts attended the conference;
- The 2018 "Huatuo Project" focusing on the diagnosis and treatment of kidney diseases with activities in Guangzhou, Changsha, Xi'an, Xiamen, Jinan, Beijing, Hangzhou, and etc., the project has reached over 1,200 primary physicians in over 50 cities;
- Primary level oriented lecture tours on healthy blood pressure were initiated in 2018. With lectures held in 8 cities such as Tianjin, Shanxi and Heilongjiang, the project has reached over 1,200 primary physicians in around 80 cities;
- "Compass of Heart – Standardized Medication for Coronary Heart Disease" lecture tour was initiated in 2018, covering over 1,000 hospitals in 20 cities of 14 provinces, 3 direct-controlled municipalities and 1 autonomous region; with online and offline activities, the project has reached over 6,000 doctors.

8.2 Participation in Public Service Activities

Social responsibility, as the internal driving force of development, is integrated into the Group's long-term development plan with actively repaying to the society. The Group actively provides public services, performs social responsibilities, encourages and supports more employees to contribute to society.

During the Reporting Period, the Group ranked among the "Top 100 Enterprises of Shenzhen" and "Top 100 Enterprise Taxpayers of the Year". The agricultural and livestock business of the Group was recognized as a "Leading Enterprise of Agriculture Industrialization of Changde City" and "Hunan Province Green Food Demonstration Base". Such honors show the efforts made by the Group in improving local community interests, and the public appreciation and recognition of the Group's brand image. During the Reporting Period, the Group donated around RMB0.2 million under public service projects, mainly organized the following public service activities:

- The Group sponsored the basketball court renewal project of Shenzhen Social Welfare Center Children Welfare Institute and donated shoe cabinets, wireless vacuum cleaners, cameras and other goods, with a total monetary value of around RMB180.0 thousand The Group has built a long-term assistance mechanism with the Shenzhen Social Welfare Center Children Welfare Institute;
- The Group has supported the "Rusticating"（三下鄉） activities held by "Warm Wind China"(暖風中國) volunteer service teams from Guangdong Medical University for the four consecutive years, and has actively donated cash and drugs since 2015. During the Reporting Period, the Group donated cash of around RMB20.0 thousand;
- The Group donated cash to support education for the community around Hunan Agriculture and Livestock and employed over a thousand nearby villagers in total. During the Reporting Period, the Group donated cash of RMB10.0 thousand.

ESG Reporting Appendix

Appendix 1 CMS Environmental, Social and Governance Reporting Index

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
Environmental			
A1: Emissions	General Disclosure		7.1 Environmental Protection Emission Control
	A1.1	The types of emissions and respective emissions data.	7.1 Environmental Protection Emission Control
	A1.2	Greenhouse gas emissions in total and intensity	7.1 Environmental Protection Emission Control
	A1.3	Total hazardous waste produced and intensity	7.1 Environmental Protection Emission Control
	A1.4	Total non-hazardous waste produced and intensity	7.1 Environmental Protection Emission Control
	A1.5	Description of measures to mitigate emissions and results achieved	7.1 Environmental Protection Emission Control
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	7.1 Environmental Protection Emission Control
A2: Use of Resources	General Disclosure		7.2 Environmental Protection Management of Energy and Resources
	A2.1	Energy consumption in total and intensity	7.2 Environmental Protection Management of Energy and Resources
	A2.2	Water consumption in total and intensity	7.2 Environmental Protection Management of Energy and Resources
	A2.3	Description of energy use efficiency initiatives and results achieved	7.2 Environmental Protection Management of Energy and Resources
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	7.2 Environmental Protection Management of Energy and Resources
	A2.5	Total packaging material used for finished products and with reference to per unit produced.	7.2 Environmental Protection Management of Energy and Resources
A3: The Environment and Natural Resources	General Disclosure		7.3 Environmental Protection Environment and Natural Resources
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	7.3 Environmental Protection Environment and Natural Resources

Appendix 1 CMS Environmental, Social and Governance Reporting Index -continued

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
Social			
B1: Employment	General Disclosure		5.1 People-oriented Practice Compliant Employment
B2: Health and Safety	General Disclosure		5.3 People-oriented Practice Care for Employees
	B2.1	Number and rate of work-related fatalities	5.3 People-oriented Practice Care for Employees
	B2.2	Description of occupational health and safety measures adopted, how they are implemented and monitored	5.3 People-oriented Practice Care for Employees
B3:Development and Training	General Disclosure		5.2 People-oriented Practice Training and Development
	B3.1	The percentage of employees trained by gender and employee category	5.2 People-oriented Practice Training and Development
B4: Labour Standards	General Disclosure		5.1 People-oriented Practice Compliant Employment
	B4.1	Description of measures to review employment practices to avoid child and forced labour	5.1 People-oriented Practice Compliant Employment
	B4.2	Description of steps taken to eliminate such practices when discovered	5.1 People-oriented Practice Compliant Employment
B5: Supply Chain Management	General Disclosure		6.1 Cooperation and Mutual Benefits Supplier Management
	B5.1	Number of suppliers by geographical region	6.1 Cooperation and Mutual Benefits Supplier Management
	B5.2	Description of practices relating to engaging suppliers, how they are implemented and monitored	6.1 Cooperation and Mutual Benefits Supplier Management

Appendix 1 CMS Environmental, Social and Governance Reporting Index -continued

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
Social			
B6: Product Responsibility	General Disclosure		4 Product Liability
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
	B6.2	How they are dealt with the products and service related complaints received	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights	4.2 Product Liability Protection of Intellectual Properties
	B6.4	Description of quality assurance process and recall procedures	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
B7: Anti-corruption	General Disclosure		3.1 Compliance Operation Anti-corruption
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	3.1 Compliance Operation Anti-corruption
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	3.1 Compliance Operation Anti-corruption
B8: Community Investment	General Disclosure		8 Community Dedication
	B8.1	Focus areas of contribution	8 Community Dedication
	B8.2	Resources contributed	8 Community Dedication

Appendix 2 CMS Environmental KPIs

KPIs	Unit	Year 2017[5] (adjusted)	Year 2018
Air Pollutant			
Sulfur Dioxide (SO_2)	Kg	1,981.2	237.1
Nitrogen Oxide (NO_x)	Kg	5,390.6	2,350.4
Particulate Matter (PM)	Kg	392.3	354.7
Wastewater and Pollutant			
Wastewater	m^3	83,689.5	86,539.4
Wastewater intensity	m^3/million RMB	15.00	14.11
Ammonia Nitrogen (NH_3-N)	Ton	Non-disclosure	0.1
Chemical Oxygen Demand (COD)	Ton	Non-disclosure	0.9
GHG			
Total GHG emission (Scope 1+2)	Ton CO_2 e	10,918.4	9,809.8
Total GHG emission intensity[6]	Ton CO_2e/million RMB	1.96	1.60
Direct GHG emission (Scope 1)	Ton CO_2 e	7,157.3	5,566.7
Indirect GHG emission (Scope 2)	Ton CO_2 e	3,761.1	4,243.1
Solid Waste			
Hazardous waste	Ton	0.3	0.2
Hazardous waste intensity[7]	Ton/million RMB	0.00005	0.00003
Non-hazardous waste	Ton	123.3	1,782.0
Non-hazardous waste intensity[8]	Ton/million RMB	0.02	0.29

[5] To ensure the comparability over the year, all the intensity of KPIs were adjusted for the Year 2017, that is, the total emissions or usage amount divided by the sales revenue (unit in RMB million) after excluding the "two-invoice system" in that year.

[6] During the Reporting Period, the energy consumption structure of the Group was changed, and the Group preferred the clean energy. All the other energy consumptions were decreased except natural gas, thus reducing GHG emissions and its intensity.

[7] During the Reporting Period, Pingshan factory was not required to produce any Active Pharmaceutical Ingredient due to the changes of the R&D testing arrangement, leading to little pharmaceutical waste produced and decreasing emission volume of hazardous waste and its intensity compared with the Year 2017.

[8] As the improvement of the Group's level of refined ESG management and ESG information disclosure, the emission volume of herb residues and sewage sludge is disclosed in the Report of the Year 2018, leading to increasing emission volume of total non-hazardous wastes and its intensity over the Year 2017.

Appendix 2 CMS Environmental KPIs -continued

KPIs	Unit	Year 2017 (adjusted)	Year 2018
Energy			
Conversion of electricity for comprehensive energy consumption	kWh	Non-disclosure	29,758,236.2
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	Non-disclosure	4,850.96
Outsourced electricity	kWh	6,462,835.1	7,079,280.2
Outsourced electricity intensity	kWh/million RMB	1,158.50	1,154.01
Natural gas	m^3	651,197.0	954,116.0
Natural gas intensity[9]	m^3/million RMB	116.73	155.53
Alcohol-based liquid fuel	Ton	2,493.7	1,842.8
Alcohol-based liquid fuel intensity[10]	Ton/million RMB	0.45	0.30
Gasoline	Liter	82,756.6	77,640.0
Gasoline intensity	Liter/million RMB	14.83	12.66
Diesel oil	Liter	3,896.0	3,111.6
Diesel oil intensity[11]	Liter/million RMB	0.70	0.51
Liquefied gas	Kg	Non-disclosure	480.0
Liquefied gas intensity	Kg/million RMB	Non-disclosure	0.08
Water Resource			
Total water consumption	m^3	133,140.3	148,634.2
Total water consumption intensity	m^3/million RMB	23.87	24.23
Packaging Materials			
Total packaging material	Ton	451.8	544.1
Total packaging material intensity	Ton/million RMB	0.08	0.09

[9] During the Reporting period, the production volume in Kangzhe Hunan obviously increased, leading to an augmentation of natural gas consumption and its intensity compared with the Year 2017.

[10] During the Reporting period, the production volume of Hebei Xili decreased compared to the last year, so the consumption of alcohol-based liquid and its intensity decreased year-on-year.

[11] During the Reporting period, Hunan Agriculture and Livestock adopted effective savings measures of diesel usage, so the consumption of diesel oil and its intensity decreased compared with the Year 2017.

Appendix 3 CMS Social KPIs

KPIs	Unit	Year 2018
Care for Employees		
Work-related deaths	Person	0
Proportion of employees had health checks of their own free will	%	100
Training and Development		
Employee training coverage	%	100
Supplier Management		
Total suppliers	Number	87
Mainland suppliers	Number	75
HK SAR, Macau SAR, Taiwan and overseas suppliers	Number	12
Guarantee the Safety and Quality of Products and Services		
Response and handling rate for complaints	%	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0
Anti-corruption		
Corruption lawsuits	Number	0
Participation in Public Service Activities		
Total donation amount for public service activities	Million RMB	0.2

Deloitte. 德勤

TO THE SHAREHOLDERS OF
CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 94 to 180, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance (the "HKCO.").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified the impairment of goodwill as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of goodwill. The impairment of goodwill is determined based on the higher of fair value less costs to sell and value in use of the cash generating units, which is based on the cash flow forecasts prepared by management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on management's view of future business prospects. As at 31 December 2018, the carrying value of goodwill was RMB1,385 million. Details relating to the Group's goodwill and key sources of estimation uncertainty are set out in Note 18 and Note 4 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill included: • Making inquiries with management on their bases and assumptions used in relation to the preparation of the value in use calculation; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the reasonableness of the key assumptions including growth rates, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentation; and • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to assess the extent of impact on the value in use calculation.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
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Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Interest in an Associate	
We identified the impairment of interest in Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical"), an associate of the Group as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of interest in Tibet Pharmaceutical and its significance to the consolidated financial statements. The impairment of interest in Tibet Pharmaceutical is determined based on the higher of fair value less costs to sell and value in use, which is based on the cash flow forecast prepared by the management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on the management's view of future business prospects. As at 31 December 2018, the carrying value of the Group's interest in Tibet Pharmaceutical was RMB2,491 million. Details relating to the Group's interest in Tibet Pharmaceutical and key sources of estimation uncertainty are set out in Note 16 and Note 4 to the consolidated financial statements.	Our procedures in relation to the impairment of interest in an associate included: • Obtaining an understanding of the management's bases and assumptions used in relation to the preparation of the value in use calculation reviewed by an independent professional external valuer; • Checking the mathematical accuracy of the value in use calculation; • Assessing the reasonableness of key inputs and assumptions used by management in estimations of value in use, including growth rates, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentations; • Evaluating the independent professional external valuer's competence, capabilities and objectivity; • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to assess the extent of impact on the value in use calculation; and • Involving our internal valuation specialists to review and assess whether the valuation model used by the independent professional external valuer was appropriate and whether the key assumptions, including discount rate, used in the valuation model were reasonable.

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with 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.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

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

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

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

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

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

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

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

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.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
Turnover	5	5,433,449	5,348,838
Cost of goods sold		(1,516,575)	(1,870,537)
Gross profit		3,916,874	3,478,301
Other gains and losses	6	(5,611)	(61,216)
Selling expenses		(1,672,595)	(1,382,150)
Administrative expenses		(243,265)	(221,974)
Finance costs	7	(71,885)	(82,250)
Share of results of associates		82,856	77,722
Profit before tax		2,006,374	1,808,433
Income tax expense	10	(161,776)	(138,494)
Profit for the year	11	1,844,598	1,669,939
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(14,065)	-
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (expense) of associates		23,168	(5,157)
Exchange differences arising from translation of foreign operations		211	-
Fair value loss on available-for-sale investment		-	(3,271)
Change in fair value on cash flow hedges			
- fair value gain		4,121	12,023
- deferred tax relating to change in fair value		(680)	(1,984)
Other comprehensive income for the year, net of income tax		12,755	1,611
Total comprehensive income for the year		1,857,353	1,671,550
Profit (loss) for the year attributable to:			
Owners of the Company		1,849,883	1,674,807
Non-controlling interests		(5,285)	(4,868)
		1,844,598	1,669,939
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,862,638	1,676,418
Non-controlling interests		(5,285)	(4,868)
		1,857,353	1,671,550
		RMB	RMB
Earnings per share	13		
Basic		0.7441	0.6734

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	478,268	479,080
Prepaid lease payments	15	61,667	58,868
Interests in associates	16	2,491,478	2,412,387
Intangible assets	17	2,554,075	2,720,326
Goodwill	18	1,384,535	1,384,535
Equity instruments at fair value through other comprehensive income	19	241,232	-
Available-for-sale investment	20	-	23,020
Deposits paid for acquisition of intangible assets	22	95,262	72,142
Derivative financial instruments	30	32,866	12,023
Deferred tax assets	29	20,712	26,882
		7,360,095	7,189,263
Current assets			
Inventories	21	434,661	460,401
Trade and other receivables	22	1,718,754	1,487,392
Tax recoverable		8,296	5,135
Amount due from an associate	23	169,565	151,023
Bank balances and cash	24	815,081	855,629
		3,146,357	2,959,580
Current liabilities			
Trade and other payables	25	382,215	506,826
Contract liabilities	26	5,469	-
Bank borrowings	27	25,000	65,000
Deferred consideration payables	28	8,847	8,802
Tax payable		129,314	77,516
		550,845	658,144
Net current assets		2,595,512	2,301,436
Total assets less current liabilities		9,955,607	9,490,699
Capital and reserves			
Share capital	31	84,963	85,200
Reserves		8,270,823	7,189,483
Equity attributable to owners of the Company		8,355,786	7,274,683
Non-controlling interests		48,289	53,574
		8,404,075	7,328,257

	NOTES	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred tax liabilities	29	101,411	104,498
Deferred consideration payables	28	9,926	17,896
Bank borrowings	27	1,440,195	2,040,048
		1,551,532	2,162,442
		9,955,607	9,490,699

The consolidated financial statements on pages 94 to 180 were approved and authorised for issue by the Board of Directors on 18 March 2019 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN Yanling
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQULITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company											
	Share capital	Share premium	Capital reserve	Surplus reserve fund	Translation reserve	Hedging reserve	Investments revaluation reserve	Accumulated profits	Dividend reserve	Sub-total	Attributable to non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note 32)	RMB'000 (Note 32)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	85,200	2,444,296	19,545	176,437	(8,890)	-	-	3,203,278	289,516	6,209,382	58,442	6,267,824
Profit (loss) for the year	-	-	-	-	-	-	-	1,674,807	-	1,674,807	(4,868)	1,669,939
Share of other comprehensive expense of associates	-	-	-	-	(5,157)	-	-	-	-	(5,157)	-	(5,157)
Fair value loss on available-for-sale investment	-	-	-	-	-	-	(3,271)	-	-	(3,271)	-	(3,271)
Change in fair value on cash flow hedges												
- fair value gain	-	-	-	-	-	12,023	-	-	-	12,023	-	12,023
- deferred tax relating to change in fair value	-	-	-	-	-	(1,984)	-	-	-	(1,984)	-	(1,984)
Total comprehensive (expense) income for the year	-	-	-	-	(5,157)	10,039	(3,271)	1,674,807	-	1,676,418	(4,868)	1,671,550
Dividends paid (Note 12)	-	-	-	-	-	-	-	(321,601)	(289,516)	(611,117)	-	(611,117)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(346,474)	346,474	-	-	-
Transfer of reserves	-	-	-	56,833	-	-	-	(56,833)	-	-	-	-
Balance at 31 December 2017	85,200	2,444,296	19,545	233,270	(14,047)	10,039	(3,271)	4,153,177	346,474	7,274,683	53,574	7,328,257
Profit (loss) for the year	-	-	-	-	-	-	-	1,849,883	-	1,849,883	(5,285)	1,844,598
Share of other comprehensive income of associates	-	-	-	-	23,168	-	-	-	-	23,168	-	23,168
Exchange differences arising from translation of foreign operations	-	-	-	-	211	-	-	-	-	211	-	211
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(14,065)	-	-	(14,065)	-	(14,065)
Change in fair value on cash flow hedges												
- fair value gain	-	-	-	-	-	4,121	-	-	-	4,121	-	4,121
- deferred tax relating to change in fair value	-	-	-	-	-	(680)	-	-	-	(680)	-	(680)
Total comprehensive income (expense) for the year	-	-	-	-	23,379	3,441	(14,065)	1,849,883	-	1,862,638	(5,285)	1,857,353
Repurchase of ordinary shares	(237)	(52,783)	-	-	-	-	-	-	-	(53,020)	-	(53,020)
Dividends paid (Note 12)	-	-	-	-	-	-	-	(382,041)	(346,474)	(728,515)	-	(728,515)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(355,691)	355,691	-	-	-
Transfer of reserves	-	-	-	97,701	-	-	-	(97,701)	-	-	-	-
Balance at 31 December 2018	84,963	2,391,513	19,545	330,971	9,332	13,480	(17,336)	5,167,627	355,691	8,355,786	48,289	8,404,075

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Profit before tax		2,006,374	1,808,433
Adjustments for:			
Amortisation of intangible assets	17	166,251	165,271
Interest expenses		70,029	79,524
Depreciation of property, plant and equipment	14	32,743	31,147
Allowance for inventories		34,471	2,952
Loss on disposal of property, plant and equipment		1,697	21
Release of prepaid lease payments		1,745	1,673
Imputed interest expense on deferred consideration payables		1,856	2,726
Allowance for credit losses		-	3,732
Share of results of associates		(82,856)	(77,722)
Interest income		(26,076)	(17,654)
Net foreign exchange loss		53,113	98,534
Gain on fair value changes of derivative financial instruments		(16,722)	-
Operating cash flows before movements in Working capital		2,242,625	2,098,637
(Increase) decrease in inventories		(51,263)	45,651
(Increase) decrease in trade and other receivables		(230,909)	192,040
Increase in amount due from an associate		(18,542)	(30,682)
Decrease in trade and other payables		(75,622)	(73,823)
Decrease in contract liabilities		(988)	-
Cash generated from operations		1,865,301	2,231,823
People's Republic of China ("PRC") Enterprise Income Tax paid		(107,688)	(155,478)
Hong Kong Profits Tax paid		(3,048)	(4,547)
Net cash from operating activities		1,754,565	2,071,798

	NOTES	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Interest received		26,076	6,615
Dividends received from associates		26,933	23,539
Purchase of property, plant and equipment		(33,855)	(76,624)
Purchase of prepaid lease payment		(4,997)	-
Proceeds from disposal of property, plant and equipment		227	898
Repayment of loan to an associate		-	717,764
Purchase of available-for-sale investment		-	(26,291)
Payments for acquisitions of equity instruments at fair value through other comprehensive income		(230,953)	-
Subscription of additional ordinary shares of an associate		-	(1,000,000)
Deposits for acquisition of intangible assets		(23,120)	-
NET CASH USED IN INVESTING ACTIVITIES		(239,689)	(354,099)
FINANCING ACTIVITIES			
New bank borrowings raised		25,000	4,368,836
Repayment of deferred consideration payables		(9,807)	(1,072,889)
Interest paid		(70,029)	(79,524)
Dividends paid	12	(728,515)	(611,117)
Repayment of bank borrowings		(717,940)	(3,950,368)
Payment on repurchase of shares		(53,020)	-
NET CASH USED IN FINANCING ACTIVITIES		(1,554,311)	(1,345,062)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(39,435)	372,637
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		855,629	482,451
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,113)	541
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH	24	815,081	855,629

1. GENERAL

China Medical System Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by The Stock Exchange of Hong Kong Limited on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, marketing, promotion and sale of drugs.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and majority of its subsidiaries (collectively referred to as the "Group").

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and Amendments to IFRSs that are mandatorily effective for the current year - continued

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of pharmaceutical products
- Promotion of pharmaceutical products

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3, respectively.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
Current liabilities				
Trade and other payables	(a)	506,826	(6,457)	500,369
Contract liabilities	(a)	-	6,457	6,457

Note:

(a) As at 1 January 2018, the date of initial application, advance from customers of RMB6,457,000 in respect of sales of pharmaceutical products previously included in trade and other payables were reclassified to contract liabilities of RMB6,457,000 upon application of IFRS 15.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and Amendments to IFRSs that are mandatorily effective for the current year - continued

2.1 IFRS 15 Revenue from Contracts with Customers - continued

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported RMB'000	Adjustment RMB'000	Amounts without application of IFRS 15 RMB'000
Current liabilities			
Trade and other payables	382,215	5,469	387,684
Contract liabilities	5,469	(5,469)	-

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustment RMB'000	Amounts without application of IFRS 15 RMB'000
Operating activities			
Decrease in trade and other payables	(75,622)	(988)	(76,610)
Decrease in contract liabilities	(988)	988	-

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and Amendments to IFRSs that are mandatorily effective for the current year - continued

2.2 IFRS 9 Financial Instruments - continued

In addition, the Group applied the hedge accounting prospectively. The Group elected to continue applying hedge accounting requirements under IAS 39.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	Available-for-sale investment	Equity instrument at fair value through other comprehensive income ("FVTOCI")	Investments revaluation reserve	Accumulated profits
		RMB'000	RMB'000	RMB'000	RMB'000
Closing balance at 31 December 2017 - IAS39		23,020	-	(3,271)	4,153,177
Effect arising from initial application of IFRS 9:	(a)	(23,020)	23,020	-	-
Opening balance at 1 January 2018		-	23,020	(3,271)	4,153,177

Notes:

(a) Available-for-sale ("AFS") investment

From AFS equity investment to FVTOCI

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investment previously classified as available-for-sale. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB23,020,000 was reclassified from available-for-sale investment to equity instrument at FVTOCI. The fair value losses of RMB3,271,000 relating to this investment previously carried at fair value continued to accumulate in investments revaluation reserve.

(b) Hedge accounting

At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship if all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts. As such, the application of the hedge accounting requirements of IFRS 9 had not resulted in adjustments to comparative figures.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and Amendments to IFRSs that are mandatorily effective for the current year - continued

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 RMB'000 (Audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (Restated)
Current assets				
AFS investment	23,020	-	(23,020)	-
Equity instruments at FVTOCI	-	-	23,020	23,020
Current liabilities				
Trade and other payables	506,826	(6,457)	-	500,369
Contract liabilities	-	6,457	-	6,457

New and Amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 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
5 Effective for annual periods beginning on or after 1 January 2020

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and Amendments to IFRSs in issue but not yet effective - continued

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

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 16 Leases - continued

As at 31 December 2018, the Group had non-cancellable operating lease commitments of approximately RMB10,441,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB879,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of- use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9, including the impairment requirements, to long- term interests in an associate or joint venture to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The application is not expected to have impact as the Group's existing accounting policies are consistent with the requirements clarified by the amendments.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. 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 ("HKCO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each 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 IFRS 2 *Share-based Payment,* leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

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 measurements 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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

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.

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

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

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business 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 group 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 group 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 is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill - continued

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group 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 group of cash-generating units) retained.

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

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

When the Group acquires additional interest in an investee such that it has become an associate after additional acquisition, the investment in the associate is initially recognised at cost, which is the sum of the fair value of the previously held interest at the date when significant influence is obtained and the consideration paid/payable for the additional interest. The Group has adopted an accounting policy to reclassify to profit or loss the cumulative gain or loss in relation to the available-for-sale ("AFS") investments previously held by the Group up to the date when significant influence is obtained which has been previously accumulated in the investments revaluation reserve by analogy to IFRS 3 Business Combination, i.e. treat the transaction as if the original investment was disposed of for fair value and the Group acquired an associate for the first time.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates - continued

When the associate is acquired in stages, goodwill is calculated at the time at which the investment becomes an associate and the goodwill is calculated as the difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation 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.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, 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 and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 the cash-generating unit) is reduced to its recoverable amount. 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. 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. 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) 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Prepaid lease payments

Prepaid lease payments represent the cost of land use rights paid to the local land bureau of the PRC Government.

Land use rights are stated at cost and are charged to profit or loss on a straight-line basis over the period for which the relevant land use right has been granted to the Group.

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.

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 instruments.

Financial assets and financial liabilities are initially measured at fair value, except for the trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Effective interest method

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.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; 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 fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) - continued

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

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

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) - continued

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances.

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;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) - continued

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 3 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) - continued

(v) Measurement and recognition of ECL

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

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

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk 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 and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 marketplace.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) - continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when then is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) - continued

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)- continued

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Derecognition of financial assets

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

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments

Classification as debts or equity

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

Equity instruments

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

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

Financial liabilities at amortised cost

The Group's financial liabilities, including trade and other payables, bank borrowings and deferred consideration payables, are subsequently measured at amortised cost, using the effective interest method.

Bank borrowings

Bank borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Bank borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss over the period of the bank borrowings using the effective interest method.

Deferred consideration payables

The deferred consideration payables are initially measured at the present value of the contractual future payments that are not paid at that date. Deferred consideration payables are subsequently measured at amortised cost 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 unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness (under IFRS 9 since 1 January 2018)

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Assessment of hedging relationship and effectiveness (before application of IFRS 9 on 1 January 2018)

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Hedge accounting - continued

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Discontinuation of hedge accounting (under IFRS 9 since 1 January 2018)

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship). Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Discontinuation of hedge accounting (before application of IFRS 9 on 1 January 2018)

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Hedge accounting - continued

Derecognition/non-substantial modification 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.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under IFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Non-substantial modifications of financial liabilities (before application of IFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, 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 asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

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

Revenue is recognised at a point in time when control of the pharmaceutical products is passed to customers upon receipt of products.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service fee income including promotion income is recognised when services are provided. Service fee income is deferred and included in "trade and other payables" line item in the consolidated statement of financial position for amount received but related services yet to be provided by the Group.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (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.

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 by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

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

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

Leasing

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.

The Group as lessee

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

Leasehold land and building - continued

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

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.

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.

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 as expenses the related costs for which the grants are intended to compensate.

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 state-managed retirement benefit schemes, which are defined contribution schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

Payments to employee benefit schemes including Key Employee Benefit Scheme (the "2009 Scheme"), CMS Key Employee Benefit Scheme (the "New KEB Scheme") and CMS Employee Incentive Scheme (the "Bonus Scheme"), which is classified as a defined contribution scheme, are recognised as an expense in the reporting period in which the Board of Directors approve for the contribution to a trust.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 IFRS 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.

4. 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.

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

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to the five (2017: five) cash generating units ("CGU"s) (see note 18). The impairment assessment is based on the higher of fair value less costs of disposal and value in use of the CGUs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss / further impairment loss may arise. In the opinion of the directors of the Company, no impairment of goodwill is required for the years ended 31 December 2018 and 2017. As at 31 December 2018, the carrying amount of goodwill is approximately RMB1,384,535,000 (2017: RMB1,384,535,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Deferred tax assets

As at 31 December 2018, a deferred tax asset of approximately RMB19,511,000 (2017: RMB25,681,000) in relation to unrealised profits on inventories has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or there is a change in facts and circumstances which results in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss in the period in which such a reversal or further recognition takes places.

Estimated impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. If the recoverable amount of an intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. No impairment loss was recognised in profit or loss for the years ended 31 December 2018 and 2017. As at 31 December 2018, the carrying amount of intangible assets is approximately RMB2,554,075,000 (2017: RMB2,720,326,000).

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the 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. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimate. As at 31 December 2018, the carrying amount of trade receivables (net of allowance for credit losses) is RMB1,280,702,000 (2017: RMB993,812,000). The information about the ECL and the Group's trade receivables are disclosed in notes 34 and 22, respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Estimated allowance for inventories

As at 31 December 2018, the carrying amount of the Group's inventories is approximately RMB434,661,000 net of allowances of approximately RMB34,471,000 (2017: RMB460,401,000 net of allowances of approximately RMB2,952,000). The management of the Group reviews an ageing analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow moving items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions.

Estimated impairment of interest in Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical")

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of the recoverable amount of interest in Tibet pharmaceutical which is the higher of fair value less costs to sell and value in use. The Group has carried out impairment testing to determine whether the Group's interest in Tibet Pharmaceutical is impaired. As at 31 December 2018, the recoverable amount of interest in Tibet Pharmaceutical was determined by value in use. The value in use as at 31 December 2018 was performed by Vigers Appraisal & Consulting Limited, an independent valuer. The value in use calculation requires the Group to estimate the future cash flows expected to arise from interest in Tibet Pharmaceutical and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 December 2018, the carrying amount of interest in Tibet Pharmaceutical was approximately RMB2,491,470,000 (2017: RMB2,410,965,000). In the opinion of the directors of the Company, no impairment of interest in Tibet Pharmaceutical is recognised for the years ended 31 December 2018 and 2017. Details of the interest in Tibet Pharmaceutical are disclosed in note 16.

Fair value measurement of financial instruments

The Group's unquoted equity instruments including in equity instruments at FVTOCI, amounting to RMB 230,953,000 as at 31 December 2018 is measured at fair values with certain fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 19 for further disclosures.

5. TURNOVER AND SEGMENT INFORMATION

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

The following is an analysis of the Group's revenue from its major products and services:

At a point in time	2018 RMB'000
Sales of pharmaceutical products	4,308,647
Promotion income	1,124,802
Total revenue	5,433,449

(ii) Performance obligations for contracts with customers

The Group sells and promotes pharmaceutical products to hospital and medical institutions throughout the PRC through distributors of direct network and agency network.

For sales of pharmaceutical products to customers, revenue is recognised at a point in time when control of the pharmaceutical products is passed to customers, i.e. when the products are delivered and titles have passed to customers upon receipt by customers. For promotion of pharmaceutical products, revenue is recognised at a point in time when the Group satisfies its obligation to arrange for the pharmaceutical products to be provided by suppliers to distributors.

A contract liability represents the Group's obligation to sales of pharmaceutical products to customers for which the Group has received consideration (or an amount of consideration is due from) to customers while revenue has yet been recognised. The transaction prices allocated to the remaining unsatisfied performance obligations as at 31 December 2018 are RMB5,469,000 and the expected timing of recognising revenue within one year.

5. TURNOVER AND SEGMENT INFORMATION- continued

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 RMB'000
Sales of goods	4,798,270
Promotion income	550,568
Total revenue	5,348,838

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used for resources allocation and assessment of segment performance.

The Group only has one reportable operating segment that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group primarily operates in the PRC. All revenue from external customers is attributed to the PRC and 99% of non-current assets excluding AFS investments and derivative financial instruments and deferred taxes of the Group are located in the PRC.

No single customer contributes over 10% of the total sales of the Group for both years.

6. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Interest income	26,076	17,654
Government subsidies (Note a)	11,299	26,499
Loss on disposal of property, plant and equipment	(1,697)	(21)
Net foreign exchange loss	(59,487)	(101,475)
Loss on disposal of inventory	-	(747)
Gain on fair value changes of derivative financial instruments	16,722	-
Others	1,476	(3,126)
	(5,611)	(61,216)

Note:

(a) The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	70,029	79,524
Imputed interest on deferred consideration payables	1,856	2,726
	71,885	82,250

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remunerations for the year, disclosed pursuant to the applicable Listing Rules and HKCO., are as follows:

	Year ended 31 December 2018						
	Executive Directors (Note b)		Independent Non-executive Directors (Note c)			Executive Director and chief executive (Note b)	
	Chen Hong Bing RMB'000	Chen Yan Ling RMB'000	Wu Chi Keung RMB'000	Cheung Kam Shing, Terry RMB'000	Leung Chong Shun RMB'000 (Note f)	Lam Kong RMB'000 (Note a)	Total RMB'000
Fees	177	177	177	177	177	177	1,062
Other emoluments							
Salaries and other benefits	2,623	2,021	-	-	-	2,848	7,492
Contributions to retirement benefits schemes	58	58	-	-	-	15	131
Total emoluments	2,858	2,256	177	177	177	3,040	8,685

	Year ended 31 December 2017								
	Executive Directors (Note b)			Independent Non-executive Directors (Note c)				Executive Director and chief executive (Note b)	
	Chen Hong Bing RMB'000	Chen Yan Ling RMB'000	Sa Man Lin RMB'000 (Note d)	Wu Chi Keung RMB'000	Cheung Kam Shing, Terry RMB'000	Leung Chong Shun RMB'000 (Note f)	Huang Ming RMB'000 (Note e)	Lam Kong RMB'000 (Note a)	Total RMB'000
Fees	156	156	124	156	156	8	148	156	1,060
Other emoluments									
Salaries and other benefits	654	525	419	-	-	-	-	610	2,208
Contributions to retirement benefits schemes	52	52	-	-	-	-	-	16	120
Total emoluments	862	733	543	156	156	8	148	782	3,388

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS - continued

Notes:

(a) Mr. Lam Kong is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

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

(c) The independent non-executive director's emoluments shown above were mainly for their services as directors of the Company.

(d) Ms. Sa Man Lin has resigned as the executive director of the Company with effective from 17 October 2017.

(e) Mr. Huang Ming has resigned as the independent non-executive director of the Company with effective from 13 December 2017.

(f) Mr. Leung Chong Shun was appointed as the independent non-executive director of the Company with effective from 13 December 2017.

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

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2018 included 3 directors (2017: nil), details of whose emoluments are set out in note 8 above. The emoluments of the remaining two (2017: five) individual for the year ended 31 December 2018 were as follows:

	2018 RMB'000	2017 RMB'000
Employees		
- basic salaries and allowances	3,024	7,909
- retirement benefits scheme contributions	109	95
	3,133	8,004

The number of the highest paid individuals who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
Nil to HK$1,000,000 (Nil to approximately RMB854,000)		
HK$1,000,001 to HK$1,500,000 (approximately RMB854,000 to RMB1,281,000)	-	-
HK$1,500,001 to HK$2,000,000 (approximately RMB1,281,000 to RMB1,709,000)	-	1
HK$2,000,001 to HK$2,500,000 (approximately RMB1,709,000 to RMB2,136,000)	2	3
HK$2,500,001 to HK$3,000,000 (approximately RMB2,136,000 to RMB2,562,000)	-	1
	-	-

During the year, no emoluments were paid by the Group to the directors or the highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax:		
The PRC Enterprise Income Tax	153,939	134,328
Hong Kong Profits Tax	5,002	3,208
Malaysia Corporate Income Tax	33	37
	158,974	137,573
Underprovision in prior years:		
The PRC Enterprise Income Tax	399	95
Hong Kong Profits Tax	-	213
	399	308
Deferred taxation (note 29):		
- Current year	2,403	613
	161,776	138,494

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for the PRC taxation purposes at the rate of taxation applicable for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for those described below.

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2017: 15%) granted by the local tax authority until 22 November 2021. Starting from 15 October 2014, 康哲 (湖南) 制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% (2017: 15%) granted by local tax authority until 4 September 2020. Starting from 1 January 2015, 西藏康哲醫藥科技有限公司 (Tibet Kangzhe Pharmaceutical Technology Co., Ltd.) ("Tibet Kangzhe Technology") and 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") are entitled to a reduced tax rate of 9% (2017: 9%) granted by local tax authority until 31 December 2020.

Pursuant to EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2017 and 2018, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) ("Kangzhe Agricultural") is eligible for such tax concession.

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharma Co., Ltd ("CMS Pharma") (formerly known as CMS Pharmaceutical Agency Co., Ltd.) is eligible to elect to pay a lump sum taxation charge of MYR20,000 or 3% on net audited profits. For the years ended 31 December 2018 and 2017, CMS Pharma elected to pay a lump sum tax of MYR20,000 (equivalent to approximately RMB33,000 and RMB37,000, respectively).

10. INCOME TAX EXPENSE - continued

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 the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

	2018 RMB'000	2017 RMB'000
Profit before tax	2,006,374	1,808,433
Tax at the applicable tax rate (Note)	501,594	452,108
Tax effect of share of results of associates	(20,714)	(19,431)
Tax effect of expenses that are not deductible in determining taxable profit	39,595	24,056
Tax effect of income that is not taxable in determining taxable profit	(247)	(3,932)
Tax effect of tax losses not recognised	4,685	1,261
Tax effect of deductible temporary differences not recognised	10,307	-
Tax effect of tax concession	(74,982)	(73,672)
Effect on different applicable tax rates of subsidiaries	(2,462)	(2,225)
Effect of tax benefit arising from Labuan Tax Act	(299,051)	(234,754)
Underprovision in prior years	399	308
Utilisation of deducible temporary differences previously not recognised	-	(7,301)
Others	2,652	2,076
Income tax expense for the year	161,776	138,494

Note: The applicable PRC EIT rate of 25% (2017: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

11. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,062	1,060
Salaries and other benefits	7,492	2,208
Contributions to retirement benefits schemes	131	120
	8,685	3,388
Other staff costs	508,973	351,923
Contributions to retirement benefits schemes	42,921	26,822
Employee benefits expense (note 41)	9,000	30,000
Total staff costs	569,579	412,133
Auditor's remuneration	2,673	2,333
Allowance for credit losses	-	3,732
Allowance for inventories	34,471	2,952
Release of prepaid lease payments	1,745	1,673
Depreciation of property, plant and equipment	32,743	31,147
Amortisation of intangible assets (included in cost of goods sold)	166,251	165,271
Cost of inventories recognised as an expense	1,310,321	1,692,938
Minimum lease payment under operating lease in respect of property	13,841	10,584

12. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2018 Interim - RMB0.1536 (2017: 2017 interim dividend RMB0.1293) per share	382,041	321,601
2017 Final - RMB0.1393 (2017: 2016 final dividend RMB0.1164) per share	346,474	289,516
	728,515	611,117
Dividends proposed		
Dividends proposed during the year:		
2018 final - RMB0.1434 (2017: 2017 final dividend of RMB0.1393) per share	355,691	346,474

The Board of Directors have declared a final dividend of RMB0.1434 per ordinary share for the year ended 31 December 2018 (2017: RMB0.1393 per ordinary share).

13. EARNINGS PER SHARE

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

	2018 RMB'000	2017 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,849,883	1,674,807

	Number of ordinary shares as at 31 December	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,486,146,033	2,487,247,512

The Group has no outstanding potential ordinary shares as at 31 December 2018 and 2017 and during the years ended 31 December 2018 and 2017. Therefore, no diluted earnings per share is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2017	190,882	1,295	173,089	27,373	17,992	34,909	445,540
Additions	95,253	-	4,752	3,925	3,670	41,822	149,422
Disposals	(291)	-	(2,237)	(3,900)	(1,335)	-	(7,763)
Transfer	12,253	26,034	7,804	-	-	(46,091)	-
At 31 December 2017	298,097	27,329	183,408	27,398	20,327	30,640	587,199
Additions	231	19,360	2,108	8,756	2,432	968	33,855
Disposals	(2,876)	-	(9,218)	(1,329)	(1,237)	-	(14,660)
Transfer	20,208	-	49	-	30	(20,287)	-
At 31 December 2018	315,660	46,689	176,347	34,825	21,552	11,321	606,394
ACCUMULATED DEPRECIATION							
At 1 January 2017	30,453	1,295	21,531	21,299	9,238	-	83,816
Provided for the year	9,792	705	16,260	2,348	2,042	-	31,147
Eliminated on disposals	(175)	-	(1,919)	(3,510)	(1,240)	-	(6,844)
At 31 December 2017	40,070	2,000	35,872	20,137	10,040	-	108,119
Provided for the year	11,893	3,585	12,955	2,672	1,638	-	32,743
Eliminated on disposals	(1,621)	-	(8,738)	(1,200)	(1,177)	-	(12,736)
At 31 December 2018	50,342	5,585	40,089	21,609	10,501	-	128,126
CARRYING VALUES							
At 31 December 2018	265,318	41,104	136,258	13,216	11,051	11,321	478,268
At 31 December 2017	258,027	25,329	147,536	7,261	10,287	30,640	479,080

14. PROPERTY, PLANT AND EQUIPMENT - continued

The above items of property, plant and equipment are depreciated over their estimated useful lives as follows:

Buildings	Over the shorter of the lease terms, or 20/40 years
Leasehold improvement	Over the shorter of the lease terms, or 20 years
Plant and machinery	9% - 18%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

The Group has pledged property, plant and equipment with a net book value of approximately RMB77,548,000 (2017: RMB73,247,000) to secure certain bank borrowings and banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	63,545	60,293
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	1,878	1,425
Non-current assets	61,667	58,868
	63,545	60,293

The Group has pledged leasehold land with a net book value of approximately RMB27,151,000 (2017: RMB28,289,000) to secure general banking facilities granted to the Group.

16. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Unlisted	11,536	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	175,586	96,495
	2,491,478	2,412,387
Fair value of listed investment (note)	1,952,267	2,219,538

16. INTERESTS IN ASSOCIATES - continued

Note: As at 31 December 2018, the fair value of the Group's interest in its listed associate, Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was approximately RMB1,952 million (2017: approximately RMB2,220 million) based on the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13 Fair Value Measurement.

As at 31 December 2018 and 2017, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest held by the Group		Principal activities
			2018	2017	
Ophol Limited ("Ophol")	Hong Kong	Hong Kong	24.49%	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical (note)	Tibet	Tibet	36.83%	36.83%	Production of medicines and sale of drugs

Note: On 3 May 2017, the Group subscribed additional 27,412,280 ordinary shares of Tibet Pharmaceutical at a price of RMB36.48 per share with total consideration of RMB999,999,974. As at 31 December 2018, the Group holds an aggregate of 66,156,114 (2017: 66,156,114) ordinary shares of Tibet Pharmaceutical. As the Group is able to exercise significant influence over Tibet Pharmaceutical in both years, it is accounted for as an associate of the Group. Included in the cost of investment in Tibet Pharmaceutical as at 31 December 2018, there is a goodwill of approximately RMB1,654,481,000 (2017: RMB1,654,481,000).

In the opinion of the directors of the Company, as the recoverable amount is higher than the carrying amount at the end of both reporting periods, no impairment loss was recognised for the years ended 31 December 2018 and 2017. Details of the assumptions used in the impairment assessment of interest in Tibet Pharmaceutical are disclosed in note 4.

Summarised financial information of associates

Summarised financial information in respect of each of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

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

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Tibet Pharmaceutical

	31.12.2018 RMB'000	31.12.2017 RMB'000
Current assets	1,087,632	812,124
Non-current assets	1,444,420	1,517,921
Current liabilities	(261,268)	(264,264)
Non-current liabilities	(13,627)	(20,378)

	2018 RMB'000	2017 RMB'000
Turnover	1,027,879	915,626
Profit for the year	218,088	234,291
Other comprehensive income (expense) for the year	62,821	(13,772)
Total comprehensive income for the year	280,909	220,519
Dividends received from the associate during the year	25,470	21,963

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

	31.12.2018 RMB'000	31.12.2017 RMB'000
Net assets of Tibet Pharmaceutical	2,257,157	2,045,403
Non-controlling interests	(4,681)	(2,200)
	2,252,476	2,043,203
Proportion of the Group's ownership interest in Tibet Pharmaceutical	36.83%	36.83%
	829,587	752,512
Goodwill	1,654,481	1,654,481
Effect of fair value adjustment at acquisition	32,861	32,861
Effect of deferred tax relating to fair value adjustment at acquisition	(8,215)	(8,215)
Other adjustments	(17,244)	(20,674)
Carrying amount of the Group's interest in Tibet Pharmaceutical	2,491,470	2,410,965

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Ophol

	31.12.2018 RMB'000	31.12.2017 RMB'000
Current assets	45	5,817
Non-current assets	-	-
Current liabilities	(13)	(11)

	2018 RMB'000	2017 RMB'000
Turnover	72	354
Profit for the year	72	587
Other comprehensive income (expense) for the year	128	(339)
Total comprehensive income for the year	200	248
Dividends received from the associate during the year	1,463	1,576

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

	31.12.2018 RMB'000	31.12.2017 RMB'000
Net assets of Ophol	32	5,806
Proportion of the Group's ownership interest in Ophol	24.49%	24.49%
Carrying amount of the Group's interest in Ophol	8	1,422

17. INTANGIBLE ASSETS

	Exclusive distribution rights	Patent rights	Product rights	Total
	RMB'000 (Note a & Note b(i))	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000
COST				
At 1 January 2017, 31 December 2017 and 2018	2,111,920	320,431	800,556	3,232,907
AMORTISATION				
At 1 January 2017	135,914	78,921	112,475	327,310
Charge for the year	103,135	19,448	42,688	165,271
At 31 December 2017	239,049	98,369	155,163	492,581
Charge for the year	103,402	23,960	38,889	166,251
At 31 December 2018	342,451	122,329	194,052	658,832
IMPAIRMENT LOSS				
At 1 January 2017, 31 December 2017 and 2018	20,000	-	-	20,000
CARRYING VALUES				
At 31 December 2018	1,749,469	198,102	606,504	2,554,075
At 31 December 2017	1,852,871	222,062	645,393	2,720,326

Notes:

(a) Exclusive distribution rights

(i) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "XinHuoSu Agreements") with Tibet Pharmaceutical in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which was distributed in the PRC market under the trade name of XinHuoSu for a term of three years with effect from 1 July 2008 to 30 June 2012.

Pursuant to the XinHuoSu Agreements, the Group obtained the exclusive distribution right of XinHuoSu for nil consideration and committed to handle the Phase IV clinical trials of XinHuoSu for 2,000 cases in the PRC to meet the drug safety standards set by the China Food and Drug Administration. The drug, XinHuoSu, to be used in the 2,000 case clinical trials would be provided by Tibet Pharmaceutical free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group.

17. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(i) - continued

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of XinHuoSu on the basis that the Group should complete the clinical trials of XinHuoSu and would bear all the costs of the clinical trials. Therefore, the costs incurred in clinical trials of approximately RMB4,745,000 were capitalised as an intangible asset.

As at 31 December 2011, the exclusive distribution right was fully amortised.

(ii) On 23 August 2012, the Group entered into a product rights transfer agreement (the "Agreement") with 北京亞東生物製藥有限公司 (Beijing Yadong Biopharmaceutical Co., Ltd.) ("Beijing Yadong"), an independent third party. According to the Agreement, Tianjin Kangzhe purchased from Beijing Yadong the exclusive distribution rights of three Traditional Chinese Medicinal Products - Yin Lian Qing Gan Ke Li, Xiang Fu Yi Xue Kou Fu Ye, Ma Jiang Jiao Nang (collectively referred to as "Three Products") for a term of 20 years with effect from 23 August 2012 at a consideration of RMB33,000,000. Tianjin Kangzhe exclusively promotes and sells the Three Products in the PRC and Beijing Yadong is responsible for the production of the Three Products as required by Tianjin Kangzhe and sells the Three Products exclusively to Tianjin Kangzhe.

During the year ended 31 December 2016, as the market base of Three Products was relatively weak and the actual sales of Three Products was lower than previously expected, there was an impairment indicator. Management performed an impairment assessment by estimating the recoverable amount of Three Products. The recoverable amount of Three Products had been determined from a value in use, based on the expected free cash flow up to the end of the exclusive distribution right at a discount rate of 11%. The recoverable amount of approximately RMB5,850,000 was lower than the carrying amount of approximately RMB25,850,000, an impairment loss of RMB20,000,000 was recognised for the year ended 31 December 2016.

During the years ended 31 December 2017 and 2018, management reviews the carrying amount of Three Products and determines that there is no further impairment.

The exclusive distribution rights are amortised over their expected useful lives of 20 years. As at 31 December 2018, the carrying amount was approximately RMB5,103,000 (2017: RMB5,474,000).

17. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(iii) On 26 February 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, an independent third party, pursuant to which AstraZeneca AB granted an exclusive license to the Group for the commercialisation of Plendil (Felodipine Sustained Release Tablet) in the PRC, at a consideration of US$310,000,000 (equivalent to approximately RMB2,029,012,000). US$155,000,000 had been paid in 2016 and the remaining balance of US$155,000,000 had been paid in 2017. As at 31 December 2018, the carrying amount of the exclusive distribution right was approximately RMB1,741,569,000 (2017: RMB1,843,019,000).

Under the exclusive license agreement, the Group has agreed to meet certain pre-agreed annual sales target in relation to the sales of Pendil in the PRC for the first three years of the term of the exclusive license agreement. The Group has reached the sales target in 2018.

The expected useful life of the exclusive license right is 20 years.

(b) Acquisition of exclusive distribution rights and patent rights

(i) The Group acquired 100% of equity interest in Great Move Enterprises Limited ("Great Move") and 51% of equity interest in Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd. ("Kangzhe Guangming") on 3 April 2011 and 30 April 2011, respectively. This included the acquisition of exclusive distribution rights and patent rights for the sales of several products. The exclusive distribution rights and patent rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent rights at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. The fair value of the exclusive distribution rights at the date of acquisition was determined based on the multi-period excess earnings method by capitalising future cash flows derived from the intangible assets for the remaining term of the distribution rights.

As at the acquisition date, the major patent rights owned by Tianjin Kangzhe, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to RMB137,917,000 and RMB8,287,000, respectively and the exclusive distribution rights owned by Tianjin Kangzhe amounted to RMB39,350,000. As at 31 December 2018, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were approximately RMB74,455,000, nil and nil, respectively (2017: RMB82,885,000, RMB4,996,000 and RMB1,278,000).

17. INTANGIBLE ASSETS - continued

Notes: - continued

(b) Acquisition of exclusive distribution rights and patent rights - continued

(i) - continued

The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to RMB5,813,000 and RMB7,715,000, respectively through the acquisition of a former subsidiary, Kangzhe Guangming. As at 31 December 2018, the exclusive distribution right and patent right of XiDaKang were approximately RMB2,797,000 and RMB2,169,000, respectively (2017: RMB3,100,000 and RMB2,399,000).

The expected useful lives of the exclusive distribution rights and patent rights are ranging from 1 year to 17 years.

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly held 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe Hunan, a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Sellers over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable (see note 28) in the amount of RMB6,145,000 at initial recognition which represents the present value of the annual consideration of RMB1,000,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the patent right of XiDaKang was also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the patent right owner of XiDaKang. As at 31 December 2018, the carrying amount was approximately RMB23,540,000 (2017: RMB26,062,000).

The expected useful lives of the patent right is 14 years.

(iii) The Group acquired 100% of equity interest in Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. (formerly known as Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd.) ("Kangzhe Lengshuijiang") on 28 February 2013. This included the acquisition of the patent right of GanFuLe. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right of GanFule owned by Kangzhe Lengshuijiang amounted to RMB16,005,000.

17. INTANGIBLE ASSETS - continued

Notes: - continued

(b) Acquisition of exclusive distribution rights and patent rights - continued

(iii) - continued

During the year ended 31 December 2016, Kangzhe Lengshuijiang was deregistered and merged with Kangzhe Hunan. The assets and liabilities held by Kangzhe Lengshuijiang were transferred to Kangzhe Hunan at the time of merger and Kangzhe Hunan is responsible for the production of GanFuLe after the merger. As at 31 December 2018, the carrying amount of the patent right of GanFuLe was approximately RMB8,059,000 (2017: RMB9,421,000).

The expected useful live of the patent right is 11 years.

(iv) The Group acquired 52.01% of equity interest in Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Xili Pharmaceutical") on 16 February 2015. This included the acquisition of the patent right of DanShenTong. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right of DanShenTong owned by Xili Pharmaceutical, amounted to RMB114,489,000. As at 31 December 2018, the carrying amount was approximately RMB89,879,000 (2017: RMB96,299,000).

The expected useful live of the patent right is 18 years.

(c) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with an independent third party, Pharma Stulln GmbH ("Pharma") in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions ("SAR")), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorisation for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly. As at 31 December 2018, the carrying amount of the product right was approximately RMB59,150,000 (2017: RMB64,231,000), which included a deferred consideration payable (see note 28) in the amount of approximately EUR1,909,000 (equivalent to approximately RMB14,981,000 (2017: EUR2,736,000 (equivalent to approximately RMB21,343,000)), which represented the present value of the annual consideration of EUR1,000,000 (equivalent to approximately RMB7,307,000) over next two (2017: three) years discounted at 10%.

The expected useful life of the product right is 20 years.

17. INTANGIBLE ASSETS - continued

Notes: - continued

(c) Acquisition of product rights - continued

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet (the "Products") with two independent third parties, Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorisation in Switzerland and imported drug license in China of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan), at a consideration of US$25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2018, the carrying amount was approximately RMB129,872,000 (2017: RM137,989,000).

The expected useful life of the product rights is 20 years.

(iii) On 25 March 2015, the Group entered into a series of agreements related to Combizym and Hirudoid (the "Purchased Products") with an independent third party, DKSH International AG, in connection with the purchase of (i) all trademarks regarding the Purchased Products; (ii) all market authorisations or similar licenses, certificates or approvals regarding the Purchased Products and all rights, benefits or other interests obtained; (iii) the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Purchased Products; and (iv) all books and records, commercial information and medical information related to the Purchased Products, with respect to Combizym in China, Hong Kong and Switzerland, and certain other designated countries or areas in Asia, and with respect to Hirudoid in China, at a consideration of Swiss Franc ("CHF") 76,600,000 (equivalent to approximately RMB486,019,000). As at 31 December 2018, the carrying amount was approximately RMB417,482,000 (2017: RMB443,173,000).

The expected useful life of the product rights is 20 years.

18. GOODWILL

For the purposes of impairment testing, the entire amount of goodwill has been allocated to five (2017: five) CGUs, representing five (2017: five) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical and Tibet Kangzhe Development (2017: Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development). Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Hunan and Xili Pharmaceutical are engaged in production of medicines. The carrying amounts of goodwill as at 31 December 2018 and 2017 allocated to these units are as follows:

18. GOODWILL - continued

	2018 RMB'000	2017 RMB'000
Tianjin Kangzhe	1,160,333	1,160,333
Kangzhe Hunan	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	198,090	198,090
Tibet Kangzhe Development	1,854	1,854
	1,384,535	1,384,535

The recoverable amounts of Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past performance and expectations of future changes in the market.

During the years ended 31 December 2018 and 2017, no impairment loss was recognised.

Tianjin Kangzhe

At 31 December 2018, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, and discount rate of 11% (2017: 11%). Tianjin Kangzhe's cash flows beyond the five-year period are extrapolated using a growth rate of 5% (2017: 3%). This growth rate is based on management's best estimate and past experience on the industry.

Kangzhe Hunan

At 31 December 2018, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, and discount rate of 11% (2017: 11%). Kangzhe Hunan's cash flows beyond the five-year period are extrapolated using a growth rate of 4% (2017: 4%). This growth rate is based on management's best estimate and past experience on the industry.

Xili Pharmaceutical

At 31 December 2018, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, and discount rate of 11% (2017: 11%). Xili Pharmaceutical's cash flows beyond the five-year period are extrapolated using a growth rate of 5% (2017: 9%). This growth rate is based on management's best estimate and past experience on the industry.

The goodwill of Sky United and Tibet Kangzhe Development was immaterial as at the end of both reporting periods.

19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000
Listed investments:	
Equity securities listed in London (Note 1)	10,279
Unlisted investments:	
Equity securities (Note 2)	230,953
Total	241,232

The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

Notes:

1. The above listed equity investment represents ordinary shares of an entity listed in London. This investment is not held for trading, instead, it is held for long-term strategic purposes. The investment is denominated in British Pound ("GBP") and the fair value is based on the quoted market price. During the year ended 31 December 2018, loss on change in fair value of RMB14,065,000 has been recognised in other comprehensive income.

2. During the year ended 31 December 2018, the Group has acquired various equity interests in the following biotech/pharmaceutical companies,

   (a) An European company for a consideration of EUR4,000,000 (equivalents to RMB30,607,000);

   (b) A British company for a consideration of GBP5,000,000 (equivalents to RMB44,771,000);

   (c) An European company for a consideration of approximately EUR2,500,000 (equivalents to RMB19,911,000); and

   (d) An American company for a consideration of approximately US$19,500,000 (equivalents to RMB135,664,000).

   The fair values of the above unlisted equity investments were performed by Vigers Appraisal & Consulting Limited, a professional independent valuer. During the year ended 31 December 2018, no change in fair value has been recognised in other comprehensive income.

20. AVAILABLE-FOR-SALE INVESTMENT

	2017 RMB'000
Listed investments:	
- Equity securities listed on the London Stock Exchange	23,020

The investment is denominated in British Pound and its fair value is based on the quoted market prices. During the year ended 31 December 2017, change in fair value of RMB3,271,000 was recognised in other comprehensive income.

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	16,015	13,038
Work in progress	13,495	9,968
Finished goods	405,151	437,395
	434,661	460,401

22. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	1,290,530	1,003,640
Less: Allowance for credit losses	(9,828)	(9,828)
	1,280,702	993,812
Bills receivables	291,621	349,633
Purchase prepayment	70,978	51,703
Value added tax receivable	-	35,237
Prepaid lease payments	1,878	1,425
Deposits paid for acquisition of intangible assets (Note)	95,262	72,142
Other receivables and deposits	73,575	55,582
	1,814,016	1,559,534
Current portion	1,718,754	1,487,392
Non-current portion	95,262	72,142
	1,814,016	1,559,534

Note:

The deposits mainly represent RMB72 million paid to a third party for acquisition of product right of Movicol.

22. TRADE AND OTHER RECEIVABLES - continued

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is allowed to some selected customers.

An aging analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date at the respective reporting period, which approximated the respective revenue recognition date is as follows:

	2018 RMB'000	2017 RMB'000
0 - 90 days	1,008,465	867,489
91 - 365 days	272,237	120,911
Over 365 days	-	5,412
	1,280,702	993,812

As at 31 December 2018, total bills received amounting to RMB291,621,000 (2017: RMB349,633,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than six months.

As at 31 December 2018, 85% (2017: 86%) the trade receivables that were neither past due nor impaired were of good credit quality because of satisfactory repayment history.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB187,659,000 (2017: RMB138,398,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable due to the long term relationship and good repayment record. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2018 RMB'000	2017 RMB'000
0 - 90 days	142,833	122,287
91 - 365 days	44,826	14,821
Over 365 days	-	1,290
	187,659	138,398

The Group has provided full impairment for receivables that aged over 3 years from invoice date because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

22. TRADE AND OTHER RECEIVABLES - continued

Movement in the allowance for credit losses:

	Allowance for credit losses RMB'000
Balance at 1 January 2017	6,096
Impairment losses recognised on receivables	3,732
Balance at 31 December 2017 and 2018	9,828

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 34.

23. AMOUNT DUE FROM AN ASSOCIATE

As at 31 December 2018, the balance of approximately RMB31,816,000 (2017: RMB31,816,000) represented deposit to Tibet Pharmaceutical for exclusive distribution right.

As at 31 December 2018, the balance of approximately RMB137,749,000 (2017: RMB119,207,000) represented promotion income receivables from Tibet Pharmaceutical. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 31 December 2018 was aged within three months (2017: within three months) based on the invoice date.

24. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.35% to 2.75% (2017: 0.35% to 3%) per annum.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2018 RMB'000	2017 RMB'000
GBP	35,287	920
United States Dollar ("US$")	5,462	2,090
Euro ("EUR")	3,851	19,658
CHF	2,547	1,057
Hong Kong Dollar ("HK$")	2,081	2,361

25. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting periods is as follows:

	2018 RMB'000	2017 RMB'000
0 - 90 days	104,724	124,497
91 - 365 days	5	2,653
Over 365 days	1,405	2,861
Trade payables	106,134	130,011
Payroll and welfare payables	100,679	94,683
Other tax payables	51,252	28,518
Accrued promotion expenses	41,254	95,022
Accruals	35,072	33,493
Other payables	32,206	60,054
Payables for acquisition of property, plant and equipment	15,618	16,001
Deferred promotion income in respect of purchase	-	42,587
Advance from customers	-	6,457
	382,215	506,826

The credit period on purchases of goods is ranging from 0 to 120 days.

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2018 RMB'000	2017 RMB'000
EUR	9,635	16,069

26. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018* RMB'000
Sales of pharmaceutical products	5,469	6,457

* The amounts in this column are after the adjustments from the application of IFRS 15.

Contract liabilities as current based on the Group's earliest obligation to transfer goods to the customers.

26. CONTRACT LIABILITIES - continued

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Sales of Pharmaceutical Products RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	6,457

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives a deposit before the goods delivered, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

27. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans	1,465,195	2,105,048
	1,465,195	2,105,048
Analysed as:		
Secured	105,000	165,000
Unsecured	1,360,195	1,940,048
	1,465,195	2,105,048

27. BANK BORROWINGS - continued

	2018 RMB'000	2017 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	25,000	65,000
Within a period of more than one year but not exceeding two years	1,440,195	488,010
Within a period of more than two years but not exceeding five years	-	1,552,038
	1,465,195	2,105,048
Less: Amounts due within one year shown under current liabilities	(25,000)	(65,000)
Amounts shown under non-current liabilities	1,440,195	2,040,048

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

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2018 RMB'000	2017 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 5.22% to 5.23% per annum as at 31 December 2018 and from 4.99% to 5.23% per annum as at 31 December 2017)	105,000	165,000
Variable-rate borrowings (Note b)		
Denominated in US$ (3.53% as at 31 December 2018 and 31 December 2017) (Note a)	1,360,195	1,940,048
Total	1,465,195	2,105,048

Notes:

(a) Variable rate at London Interbank Offered Rate ("LIBOR") plus 1.8% as at 31 December 2018 (2017: LIBOR plus 1.8%).

(b) As at 31 December 2018, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB1,360,195,000 (2017: RMB1,940,048,000). The principal amount of the variable-rate bank borrowings will be repayable on 23 June 2020. Details of the interest rate swaps are disclosed in note 30.

27. BANK BORROWINGS - continued

During the year, in respect of a bank loan with a carrying amount of RMB25,000,000 as at 31 December 2018, a subsidiary of the Company breached certain of the terms of the bank loan, which are primarily related to the debt-asset ratio of the subsidiary. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant banker. As at 31 December 2018, those negotiations had not been concluded. As at 31 December 2018, the bank borrowings of RMB25,000,000 has already been classified as a current liability based on the originally agreed repayment period. Up to the date of approval for issuance of the consolidated financial statements, the negotiations are still in progress. Based on the current financial position of the Group, the directors of the Company is confident that the Group has sufficient financial resources to repay the bank borrowings of RMB25,000,000 and there is no threat to the continuing operations of the Group.

As at 31 December 2018, the Group had unutilised banking facilities of approximately RMB1,904,740,000 (2017: RMB1,548,802,000).

28. DEFERRED CONSIDERATION PAYABLES

	2018 RMB'000	2017 RMB'000
Non-current	9,926	17,896
Current	8,847	8,802
	18,773	26,698

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (see note 17(b) (ii)). In addition to the first payment of RMB30,000,000, further consideration is payable annually of RMB1,000,000 for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to RMB6,145,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2018, the carrying value amounting to RMB3,792,000 (2017: RMB5,355,000) was included in deferred consideration payables.

During the year ended 31 December 2014, the Group acquired all assets related to Stulln for the Chinese Market, part of the consideration is payable annually in the amount of EUR1,000,000 (equivalent to approximately RMB7,307,000) for five years since 2016. The present value of the discounted consideration determined based on a discount rate of 10% amounting to approximately EUR3,614,000 (equivalent to approximately RMB30,342,000) was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2018, the carrying value amounting to approximately EUR1,909,000 (equivalent to approximately RMB14,981,000) (2017: EUR2,736,000 (equivalent to approximately RMB21,343,000)) was included in deferred consideration payables.

29. DEFERRED TAX

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

	Unrealised profits on inventories RMB'000	**Fair value adjustments to assets acquired in business combinations** RMB'000	**Unrealised profit of equity instruments at FVTOCI** RMB'000	**Fair value gain on cash flow hedges** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2017	29,343	(41,599)	(63,964)	-	1,201	(75,019)
(Charge) credit to profit or loss for the year (note 10)	(3,662)	3,049	-	-	-	(613)
Charge to other comprehensive income	-	-	-	(1,984)	-	(1,984)
At 31 December 2017	25,681	(38,550)	(63,964)	(1,984)	1,201	(77,616)
(Charge) credit to profit or loss for the year (note 10)	(6,170)	3,767	-	-	-	(2,403)
Charge to other comprehensive income	-	-	-	(680)	-	(680)
At 31 December 2018	19,511	(34,783)	(63,964)	(2,664)	1,201	(80,699)

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	20,712	26,882
Deferred tax liabilities	(101,411)	(104,498)
	(80,699)	(77,616)

At 31 December 2018, the Group had unused tax losses of approximately RMB38,290,000 (2017: RMB19,550,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2018 are tax losses of approximately RMB22,935,000 (2017: RMB7,447,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2018, tax losses of approximately RMB698,000 (2017: RMB671,000) was expired.

29. DEFERRED TAX - continued

As at 31 December 2018, the Group had deductible temporary differences of RMB599,167,000 (2017:RMB582,619,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB78,044,000 (2017: RMB102,724,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB521,123,000 (2017: RMB479,895,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB3,701,717,000 (2017: RMB2,834,141,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RMB'000	2017 RMB'000
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	16,144	12,023
Foreign exchange forward contracts	16,722	-
	32,866	12,023

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms, such as principal amounts, interest rate spread, start dates, repayment data, maturity and counterparties, and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps as at 31 December 2018 and 2017 are set out below:

At 31 December 2018

Notional amount (Note)	Contract date	Maturity date	Receive	Pay
US$40,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$32,000,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$113,000,000	18 August 2017	23 June 2020	LIBOR + 1.8%	3.54%
US$15,000,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

30. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Interest rate swaps – continued

At 31 December 2017

Notional amount (Note)	Contract date	Maturity date	Receive	Pay
US$140,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$32,000,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$113,000,000	18 August 2017	23 June 2020	LIBOR + 1.8%	3.54%
US$15,000,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

Note: The notional amount will be expired on 23 June 2020, which are the same as corresponding bank borrowings.

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. During the year ended 31 December 2018, the fair value gain of approximately RMB4,121,000 (2017: RMB12,023,000), net of income tax of approximately RMB680,000 (2017: RMB1,984,000), resulting in a net amount of approximately RMB3,441,000 (2017: RMB10,039,000) have been recognised in other comprehensive income and accumulated in equity and are expected to be released to profit or loss at various dates during the lives of the swaps when the hedged interest expense is recognised in profit or loss.

Foreign Exchange Forward Contract

Notional amount	Maturity date	Exchange rate range agreed
US$200,000,000 (Note)	23 June 2020	US$1:RMB6.7 to RMB7.2
EUR1,500,000	4 January 2019	EUR1:RMB7.81

Note:

The Group uses foreign exchange forward contracts to minimize its exposure to exchange rate change on its bank borrowings. The foreign exchange forward contracts and the corresponding bank borrowings have the same principal amounts and maturity dates.

31. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2017, 31 December 2017 and 31 December 2018	20,000,000	765,218
Issued and fully paid		
At 1 January 2017, 31 December 2017	2,487,247	85,200
Shares repurchased and cancelled (Note)	(6,839)	(237)
At 31 December 2018	2,480,408	84,963

Note: During the year, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of ordinary shares of US$0.005 each	Price per share		Aggregated consideration paid
		Highest	Lowest	
11 October 2018	1,122,000	HK$8.90	HK$8.78	HK$9,960,300
12 October 2018	150,000	HK$9.10	HK$9.07	HK$1,364,800
15 October 2018	150,000	HK$9.27	HK$9.24	HK$1,398,810
16 October 2018	500,000	HK$9.12	HK$9.03	HK$4,542,680
18 October 2018	500,000	HK$9.00	HK$8.90	HK$4,479,210
19 October 2018	500,000	HK$9.18	HK$9.16	HK$4,589,840
23 October 2018	500,000	HK$9.09	HK$8.93	HK$4,504,150
25 October 2018	500,000	HK$9.10	HK$8.97	HK$4,525,610
26 October 2018	500,000	HK$8.86	HK$8.75	HK$4,418,130
14 November 2018	500,000	HK$9.20	HK$9.12	HK$4,576,230
30 November 2018	800,000	HK$8.52	HK$8.52	HK$6,816,000
07 December 2018	1,117,000	HK$7.80	HK$7.64	HK$8,617,200

The above ordinary shares were cancelled upon repurchase.

As the repurchase of ordinary shares disclosed above, 1,272,000 ordinary shares have been repurchased by a subsidiary of the Comapny during the year.

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

32. RESERVES

Capital reserve

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Shenzhen Kangzhe granted by Mr. Lam Kong, a director and former shareholder of Shenzhen Kangzhe, to certain employees for their services rendered in prior year, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered in prior year, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Shenzhen Kangzhe to Sino Talent Limited ("Sino Talent") pursuant to the group restructuring in 2005 and the nominal value of Shenzhen Kangzhe's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International Limited ("CMS International") and Healthlink Consultancy Inc. ("Healthlink") pursuant to the group reorganisation in 2006 and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007. The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated on or before 2006.

On 19 April 2010, the Group acquired an additional interest in Sky United. An amount of approximately RMB15,026,000, representing the excess of the fair value of the new ordinary shares issued by the Company over the decrease in the carrying value of the non-controlling interest is charged to capital reserve.

During the year ended 31 December 2010, a deemed distribution to a shareholder was charged to capital reserve in respect of expenses incurred for a shareholder during the initial public offering exercise by the Company.

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments	2018 RMB'000	2017 RMB'000
Financial assets		
Derivative instruments under hedge accounting (cash flow hedges-interest rate swaps)	16,144	12,023
Derivative financial instruments – foreign exchange forward contracts	16,722	-
Financial assets at amortised cost	2,556,969	-
Equity instruments at FVTOCI	241,232	-
Loans and receivables (including cash and cash equivalents)	-	2,370,309
AFS investment	-	23,020
Financial liabilities		
At amortised cost	(1,672,215)	(2,440,127)

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, trade and other receivables, amount due from an associate, derivative financial instruments, AFS investments, bank balances and cash, trade and other payables, bank borrowings and deferred consideration payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 27).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 24) and variable-rate bank borrowings (see note 27). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates at LIBOR arising from the Group's US$ denominated borrowings. The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flow of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rates swaps are designated as effective hedging instruments and hedge accounting is used (see note 30). Accordingly, no sensitivity analysis is presented.

Interest income of RMB26,076,000 (2017: RMB17,654,000) from financial assets that are measured at amortised cost and loans and receivables (including cash and cash equivalents) for the year ended 31 December 2018.

Interest expense of RMB71,885,000 (2017: RMB82,250,000) on financial liabilities not measured at fair value through profit or loss that are measured at amortised cost for the year ended 31 December 2018.

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 57% (2017: 31.9%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

The carrying amounts of the Group's foreign currency denominated monetary assets (representing equity instruments at FVTOCI, AFS investment and bank balances and cash) and monetary liabilities (representing trade and other payables, deferred consideration payables and bank borrowings) at the reporting date are as follows:

	Assets		Liabilities	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
GBP	90,337	23,940	-	-
US$	173,992	2,090	1,362,587	1,940,048
EUR	54,369	19,658	24,616	37,412
CHF	2,547	1,057	-	-
HK$	2,990	2,361	-	-

The Group is mainly exposed to currency risk of the GBP, US$, EUR, CHF and HK$. The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. The sensitivity analysis includes equity instruments at FVTOCI, AFS investments, bank balances, trade and other payables, bank borrowings and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% (2017: 5%) against the relevant foreign currencies. If there is a 5% (2017: 5%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year:

	2018 RMB'000	2017 RMB'000
RMB (as functional currency of the relevant group entities) against GBP	(3,388)	(898)
RMB (as functional currency of the relevant group entities) against US$	44,571	72,673
RMB (as functional currency of the relevant group entities) against EUR	(1,116)	666
RMB (as functional currency of the relevant group entities) against CHF	(96)	(40)
RMB (as functional currency of the relevant group entities) against HK$	(112)	(89)

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

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

Other price risk management

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in pharmaceutical industry sector quoted in the London Stock Exchange.

In management's opinion, the Group's exposure to other price risk is minimal and therefore, no sensitivity analysis is prepared.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2018 and 2017 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk on amount due from an associate. As at 31 December 2018, the carrying amount of the Group's amount due from an associate was RMB169,565,000 (2017: RMB151,023,000). The directors of the Company do not consider that the credit risk in relation to the amount due from an associate is significant because the associate is financially healthy.

34. 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 and amount due from an associate, the Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers.

The Group has concentration of credit risk by geographical location as majority of the customers are located in the PRC for both years.

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

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL - not credit-impaired	12m ECL
Watch list	Debtor frequently settles after due date	Lifetime ECL - not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
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 prospectof recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amounts
				RMB'000
Financial assets at amortised cost				
Trade receivables	22	Note 1	Lifetime ECL (provisional matrix)	1,286,596
		Loss	Credit impaired	3,934
				1,290,530
Bills receivables (Note 2)	22	Low risk	12m ECL	291,621
Amount due from an associate (Note 2)	23	Low risk	12m ECL	169,565

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes:

(1) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its pharmaceutical operation. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amount of RMB3,934,000 as at 31 December 2018 were assessed individually.

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables RMB'000
Low risk	0.1%	1,008,465
Watch list	1.2%	276,349
Doubtful	100%	1,782
		1,286,596

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.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier. The Group has taken legal action against the debtors to recover the amount due. No additional impairment loss on trade receivables has been provided during the year ended 31 December 2018 as the Group has already made adequate provision for credit loss on trade receivables as at 31 December 2017.

(2) The Group assessed the loss allowance for bills receivables and amount due from an associate on 12-month ECL basis. In determining the ECL, the Group has taken into account the historical default experience and forward looking information as appropriate. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that credit risk inherent in the Group's outstanding balances is insignificant.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk management

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.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of the reporting period.

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2018
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018						
Trade and other payables	-	188,247	-	-	188,247	188,247
Deferred consideration payables	10	8,847	11,134	-	19,981	18,773
Fixed rate bank borrowings	5.22	25,326	93,203	-	118,529	105,000
Variable-rate bank borrowings	3.54	48,151	1,380,455	-	1,428,606	1,360,195
		270,571	1,484,792	-	1,755,363	1,672,215

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2017
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017						
Trade and other payables	-	308,381	-	-	308,381	308,381
Deferred consideration payables	10	8,802	19,079	1,000	28,881	26,698
Fixed rate bank borrowings	5.17	68,358	122,325	-	190,683	165,000
Variable-rate bank borrowings	3.53	68,581	2,033,286	-	2,101,867	1,940,048
		454,122	2,174,690	1,000	2,629,812	2,440,127

34. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments

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

Some of the Group's financial assets 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 are determined (in particular, the valuation techniques and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31/12/2018	31/12/2017		
1) Interest rate swaps classified as derivative financial instruments	Assets - RMB16,144,000	Assets - RMB12,023,000;	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
2) Foreign exchange forward contracts classified as derivative financial instruments	Assets - RMB16,722,000	Nil	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rate and contracted exchange rate, discounted at a rate that reflects the credit risk of various counterparties.
3) Equity instruments at FVTOCI - Listed/ AFS investment	Listed equity securities on the London Stock Exchange - RMB10,279,000	Listed equity securities on the London Stock Exchange - RMB23,020,000	Level 1	Quoted bid prices in an active market.
4) Equity instrument at FVTOCI - Unlisted	Unlisted equity investments: RMB230,953,000	Nil	Level 3	Back-solve approach. Black-Scholes Option Pricing Model are based on risk-free rate, expected dividend yield and liquidation timing.

34. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

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

There were no transfers between Level 1 and 2 during the year.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings	Deferred consideration payables	Dividend payables	Total
	RMB'000 (note 27)	RMB'000 (note 28)	RMB'000 (note 12)	RMB'000
At 1 January 2018	2,105,048	26,698	-	2,131,746
Financing cash flows	(762,969)	(9,807)	(728,515)	(1,501,291)
Dividends declared	-	-	728,515	728,515
Finance costs	70,029	1,856	-	71,885
Net foreign exchange loss	53,087	26	-	53,113
At 31 December 2018	1,465,195	18,773	-	1,483,968

	Bank borrowings	Deferred consideration payables	Dividend payables	Total
	RMB'000 (note 27)	RMB'000 (note 28)	RMB'000 (note 12)	RMB'000
At 1 January 2017	1,612,398	1,118,463	-	2,730,861
Financing cash flows	338,944	(1,072,889)	(611,117)	(1,345,062)
Dividends declared	-	-	611,117	611,117
Finance costs	79,524	2,726	-	82,250
Net foreign exchange loss (gain)	74,182	(10,088)	-	64,094
Others (note 36)	-	(11,514)	-	(11,514)
At 31 December 2017	2,105,048	26,698	-	2,131,746

36. NON-CASH TRANSACTION

During the year ended 31 December 2017, the Group agreed with Pharma to settle the deferred consideration payable of EUR2,000,000 (equivalent to approximately RMB15,358,000) on a net basis, upon offsetting with the interest-bearing and secured loan receivable due from Pharma with a carrying amount of EUR1,500,000 (equivalent to approximately RMB11,514,000). The remaining balance of EUR500,000 (equivalent to RMB3,844,000) was settled by the Group in cash.

37. OPERATING LEASE

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	4,152	5,066
In the second to fifth year inclusive	6,289	10,472
	10,441	15,538

Operating lease payments represent rental payable by the Group for certain of its office premises. The lease is negotiated for a lease term of 1 to 5 years at fixed monthly rental. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew.

The Group does not have an option to purchase the leased asset at the expiry of the lease period.

38. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the consolidated financial statements	20,560	21,568

39. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related financial parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below, in addition to the transactions and balances disclosed elsewhere in the consolidated financial statements.

(a) The Group entered into the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2018	2017
			RMB'000	RMB'000
Ophol	Associate	Interest expense	71	354
Tibet Pharmaceutical	Associate	Promotion income	406,084	305,612
Tibet Pharmaceutical	Associate	Purchase of goods	-	161,424
Tibet Pharmaceutical	Associate	Interest income	-	10,295

(b) On 8 May 2015, A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, entered into agreements with Faron Pharmaceuticals, Ltd ("Faron"), to acquire 15.72% of the shareholding of Faron, assets related to Traumakine in the PRC, Hong Kong, Macau and Taiwan (the "Territory"), intellectual properties related to Traumakine from the Territory and the right to exchange Traumakine information with Faron.

On 19 May 2015, the Group entered into agreements with A&B and/or Faron respectively, to acquire the assets related to Traumakine in the Territory. The consideration for above transfer will be further negotiated and agreed between A&B and the Group at a later stage prior to the launch of Traumakine in the Territory, the amount would be calculated with reference to the net sales of Traumakine in the Territory.

The acquisition was not yet completed up to the date of this report.

(c) The key management personnel includes solely the directors of the Company and the compensation paid to them as disclosed in note 8.

40. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to RMB43,052,000 (2017: RMB26,942,000).

41. EMPLOYEE BENEFIT SCHEME

The 2009 Scheme was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think appropriate select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the 2009 Scheme is classified as defined contribution scheme.

41. EMPLOYEE BENEFIT SCHEME - continued

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 5% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subjected to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. The Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2018, the Company recognised an expense of RMB9,000,000 (2017: RMB30,000,000) on the Master Scheme based on the Group's financial performance. RMB9,000,000 (2017: RMB30,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

42. SUBSIDIARIES OF THE COMPANY

As at 31 December 2018 and 31 December 2017, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (Note i)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2018	31 December 2017	31 December 2018		31 December 2017		
				Directly	Indirectly	Directly	Indirectly	
CMS International (Note a)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (wholly-owned domestic enterprise)	PRC	RMB36,750,000	RMB36,750,000	-	100%	-	100%	Production of medicines
Tibet Kangzhe Enterprise Management Co. Ltd. (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Kangzhe Pharmaceutical Industrial Ltd. (Note a)	British Virgin Islands	RMB21,288,000	RMB21,288,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Changde Kangzhe Pharmaceutical Co., Ltd. (wholly-owned domestic enterprise)(Note b)	PRC	RMB2,000,000	RMB2,000,000	-	100%	-	100%	Marketing and promotion of drugs
CMS Pharma	Malaysia	US$1	US$1	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Great move (Note a)	British Virgin Islands	US$10,000	US$10,000	-	100%	-	100%	Investment holding
Generous Wealth Limited (Note a)	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Tianjin Kangzhe (wholly foreign-owned enterprise)	PRC	RMB500,000,000	RMB500,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Lengshuijiang Kangzhe Pharmaceutical Co., Ltd, (wholly-owned domestic enterprise)	PRC	RMB7,000,000	RMB6,000,000	-	100%	-	100%	Production of medicines
Kangzhe Agricultural (wholly-owned domestic enterprise)	PRC	RMB20,000,000	RMB20,000,000	-	100%	-	100%	Agriculture

42. SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries (Note i)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2018	31 December 2017	31 December 2018		31 December 2017		
				Directly	Indirectly	Directly	Indirectly	
香港鼎成投資有限公司 (Note a)	Hong Kong	HK$10,000	HK$10,000	-	100%	-	100%	Investment holding
Bridging Pharma Limited (Note a)	United Kingdom	GBP100	GBP100	-	100%	-	100%	Investment holding
Bridging Pharma GmbH (Note a)	Switzerland	CHF20,000	CHF20,000	-	100%	-	100%	Investment holding
Xili Pharmaceutical (sino-foreign equity joint venture)	PRC	RMB11,360,000	RMB11,360,000	-	52.01%	-	52.01%	Production of medicines
Tibet Kangzhe Technology (wholly-owned domestic subsidiary)	PRC	RMB3,000,000	RMB3,000,000	-	100%	-	100%	Marketing and promotion of drugs
Tibet Kangzhe Development (wholly-owned domestic subsidiary)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Trading of drugs
CMS Bridging Limited (formerly known as Everest Fortune Limited) (Note c)	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
CMS Medical Venture Investment Limited	British Virgin Island	US$50,000	US$50,000	-	100%	-	100%	Investment holding
CMS Medical Limited (Note d)	Malaysia	US$1	-	-	100%	-	-	Investment holding
CMS Medical Venture Investment Limited (HK) Limited (Note e)	Hong Kong	HK$100	-	-	100%	-	-	Investment holding
CMS Bridging Trading Macau Limited (Note f)	Macau	MOP$25,000	-	-	100%	-	-	Investment holding
CMS Medical Hong Kong Limted (Note g)	Hong Kong	HK$1	-	-	100%	-	-	Investment holding
Shenzhen Kangzhe Pharmaceutical Service Limited (Note h)	PRC	RMB10,000,000	-	-	100%	-	-	Provision of service

Notes:

(a) Being inactive subsidiaries.
(b) The subsidiary was deregistered on 23 January 2019.
(c) The subsidiary was established on 6 January 2016 and changed its name as CMS Bridging Limited in 2018.
(d) The subsidiary was established on 16 May 2018.
(e) The subsidiary was established on 29 May 2018.
(f) The subsidiary was established on 28 December 2018.
(g) The subsidiary was established on 26 September 2018.
(h) The subsidiary was established on 20 December 2018.
(i) None of the subsidiaries had issued any debt securities at the end of the yea

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current asset		
Interests in subsidiaries	3,236,839	3,236,306
Current assets		
Amount due from a subsidiary	1,900,000	800,000
Bank balances and cash	2,403	234
	1,902,403	800,234
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	3,698	2,506
	6,656	5,464
Net current assets	1,895,747	794,770
Total assets less current liabilities	5,132,586	4,031,076
Capital and reserves		
Share capital (note 31)	84,963	85,200
Reserves	5,047,623	3,945,876
Total equity	5,132,586	4,031,076

Movement in reserves

	Share premium	Capital reserve	Accumulated profits	Dividend reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	2,444,296	6,960	1,034,373	289,516	3,775,145
Profit and total comprehensive income for the year	-	-	781,848	-	781,848
Dividends paid	-	-	(321,601)	(289,516)	(611,117)
Dividends proposed	-	-	(346,474)	346,474	-
Balance at 31 December 2017	2,444,296	6,960	1,148,146	346,474	3,945,876
Profit and total comprehensive income for the year	-	-	1,883,045	-	1,883,045
Dividends paid	-	-	(382,041)	(346,474)	(728,515)
Dividends proposed	-	-	(355,691)	355,691	-
Repurchase of ordinary shares	(52,783)	-	-	-	(52,783)
Balance at 31 December 2018	2,391,513	6,960	2,293,459	355,691	5,047,623