翰森製藥
HANSOH PHARMA

Hansoh Pharmaceutical Group Company Limited
翰森製藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3692

2019

Annual Report

Contents

Corporate Overview

The Company is one of the leading research and development-driven pharmaceutical companies in the People's Republic of China ("**PRC**" or "**China**"), devoting itself to meet the unmet clinical needs of patients and improve the health and well-being of human beings through continuing innovation.

The Company has established a leading position in some of the largest and fastest-growing therapeutic areas in the PRC with significant unmet clinical needs, including central nervous system ("**CNS**") diseases, oncology, anti-infectives and diabetes.

The core driving force of the Company is its focus on innovation. The Company has continuously increased its investments in research and development ("**R&D**") over the years, established a sound R&D platform and mastered a number of proprietary technologies. It has successfully launched and developed a series of innovative drugs and first-to-market generic drugs. During the year under review, the Company successfully launched seven new drugs in total, including two innovative drugs, Fulaimei (polyethylene glycol loxenatide for injection) and Hansoh Xinfu (flumatinib mesylate).

The Company attaches great importance to product quality. It has maintained the advanced nature of its production quality system through overseas certification, while at the same time constantly expanding the business pipeline of its principal businesses. In addition, it continues to introduce advanced management concepts and tools to improve the overall operation efficiency of the Group.

As the innovative drugs are approved for marketing from time to time, the Company devotes efforts to improve its professional marketing capability and increase the understanding and knowledge of medical professionals regarding the innovative drugs.

MAIN PRODUCTS

CNS disease drugs:	Oulanning (olanzapine tablets) and Ameining (agomelatine tablets)
Oncology drugs:	Pulaile (pemetrexed disodium for injection), Zefei (gemcitabine hydro chloride for injection), Hansoh Xinfu (flumatinib mesylate), Xinwei (imatinib mesylate tablets), Xinmei (decitabine for injection), Xintai (bortezomib for injection) and Tanneng (fosaprepitant dimeglumine for injection)
Anti-infective drug:	Mailingda (morinidazole sodium chloride injection), Zetan (tigecycline for injection), Hengjie (linezolid glucose injection) and Hengsen (micafungin sodium for injection)
Others:	Fulaimei (polyethylene glycol loxenatide for injection), Fulaidi (repaglinide tablets), Fulairui (canagliflozin tablets), Ruibote (rabeprazole sodium enteric-coated tablets), Zexin (apixaban tablets) and Ruiyisheng (prucalopride succinate tablets)

In 2013, the Company was first awarded with the State Science and Technology Award (second prize) (國家科技獎(二等獎)) by the PRC State Council (中國國務院) (the "**State Council**"). During the same year, we obtained United States Food and Drug Administration ("**U.S. FDA**") certification for our oncology injectable products, including Zefei, which was approved for sale by the U.S. FDA. We obtained the latest versions of Chinese Good Manufacturing Practice (藥品生產品質管制規範) ("**GMP**") certifications for all our production lines.

In 2014, the Company was once again awarded with the State Science and Technology Award (second prize) (國家科技獎(二等獎)) by the State Council. During the same year, our first self-developed innovative drug Mailingda (morinidazole sodium chloride injection) was approved for sale in China.

Corporate Overview

In 2017, the Company ranked 22nd among the "Top 100 Pharmaceutical Industrial Enterprises of China" (2017年中國醫藥工業企業百強) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In both 2018 and 2019, the Company ranked second for "R&D-driven Pharmaceutical Companies in China" (中國醫藥研發產品線最佳工業企業) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心) for two years consecutively.

In May 2019, our self-developed GLP-1 receptor agonist and a long-acting Category 1.1 innovative drug indicated for the treatment of Type-II diabetes, Fulaimei (polyethylene glycol loxenatide for injection), was approved for sale in China.

In May 2019, the Company was awarded with the "Green Enterprise Management Award" (2019年度綠色企業管理獎).

On June 14, 2019 (the "**Listing Date**"), the shares of the Company were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), creating a milestone for the Group and laying a solid foundation for our future development.

In August 2019, the Company was named as an enterprise with "Excellence in Performing Social Responsibilities Among Chinese Pharmaceutical Enterprises" (中國醫藥企業社會責任優秀) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In November 2019, Hansoh Xinfu (flumatinib mesylate), a Category 1.1 innovative drug self-developed by the Company, obtained the approval for marketing in China and is indicated for the treatment of chronic myelogenous leukemia.

The website of the Group: **www.hspharm.com**

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Zhong Huijuan (鍾慧娟)
(Chairlady and Chief Executive Officer)
Mr. Lyu Aifeng (呂愛鋒)
Miss Sun Yuan (孫遠)

Non-executive Director

Ms. Ma Cuifang (馬翠芳)

Independent Non-executive Directors

Mr. Lin Guoqiang (林國強)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

AUDIT COMMITTEE

Mr. Chan Charles Sheung Wai (陳尚偉) *(Chairman)*
Mr. Lin Guoqiang (林國強)
Ms. Ma Cuifang (馬翠芳)

REMUNERATION COMMITTEE

Ms. Yang Dongtao (楊東濤) *(Chairlady)*
Ms. Zhong Huijuan (鍾慧娟)
Mr. Lin Guoqiang (林國強)

STRATEGY AND DEVELOPMENT COMMITTEE

Ms. Zhong Huijuan (鍾慧娟) *(Chairlady)*
Mr. Lyu Aifeng (呂愛鋒)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

JOINT COMPANY SECRETARIES

Ms. Zhong Shengli (鍾勝利)
Ms. Li Yan Wing Rita (李昕穎)

AUTHORISED REPRESENTATIVES

Miss Sun Yuan (孫遠)
Ms. Li Yan Wing Rita (李昕穎)

STOCK CODE

Stock Code: 3692

REGISTERED OFFICE IN THE CAYMAN ISLANDS

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

9 Dongjin Road
Economic & Technical Development Zone
Lianyungang
Jiangsu, 222069
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE

www.hspharm.com

AUDITOR

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Hong Kong

Corporate Information

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)
37/F, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANK

Lianyungang Branch of the Bank of Communications
No.45 Huanghe Road
Economic & Technical Development Zone
Lianyungang
Jiangsu
The People's Republic of China

Financial Highlights

RESULTS

	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**8,682,746**	7,722,278	6,185,537	5,432,960
Cost of sales	**(729,540)**	(603,100)	(455,171)	(397,279)
Gross profit	**7,953,206**	7,119,178	5,730,366	5,035,681
Other income	**221,219**	77,953	93,230	85,811
Selling and distribution expenses	**(3,266,380)**	(3,208,680)	(2,704,200)	(2,378,040)
Administrative expenses	**(777,692)**	(790,158)	(614,075)	(537,972)
Research and development costs	**(1,120,681)**	(881,288)	(575,544)	(403,065)
Other (expenses)/gains, net	**(8,747)**	(7,680)	3,014	5,274
Finance cost	**–**	–	–	(3,411)
PROFIT BEFORE TAX	**3,000,925**	2,309,325	1,932,791	1,804,278
Income tax expense	**(444,183)**	(406,277)	(337,318)	(328,244)
PROFIT FOR THE YEAR	**2,556,742**	1,903,048	1,595,473	1,476,034

ASSETS AND LIABILITIES

	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**19,575,204**	8,414,371	5,874,048	4,820,951
Total liabilities	**6,530,882**	5,946,473	1,355,358	1,846,613
Total equity	**13,044,322**	2,467,898	4,518,690	2,974,338

Chairlady's Statement

As a pharmaceutical enterprise founded in 1995, we have been continually committed to the innovation and development in fields with unmet clinical needs during the past 25 years. The product portfolio of our Group covers major therapeutic areas such as the central nervous system, oncology, anti-infective and diabetes, and our core products have established market-leading positions in their respective sub-fields.

In 2019, the pharmaceutical industry in China was on a rapid and high-quality development track. Multiple significant policies introduced and implemented in the industry entailed medical reform throughout the year, bringing profound and positive impacts to the country and its people. Our Group proactively responds to the policy adjustment, increases input in innovation and R&D, and manufactures products in an environmentally friendly manner. With such efforts, our Group has achieved stable business growth, and reaps fruitful results in innovative pipelines.

In 2019, revenue of our Group was approximately RMB8,683 million, representing a year-on-year increase of approximately 12.4%; R&D expenditure was approximately RMB1,121 million, representing a year-on-year increase of approximately 27.2%, and accounted for approximately 12.9% of the revenue; net profit was approximately RMB2,557 million, representing a year-on-year increase of approximately 34.3%; and earnings per share was approximately RMB0.47, representing a year-on-year increase of approximately 22.6%.

Oulanning and Xinwei, two core products of our Group, became the first batch of medicines selected into the nationwide scheme for centralized procurement and expansion of drugs, and maintained steady growth in 2019. Hansoh Xinfu, indicated for the treatment of chronic myelogenous leukemia, and Fulaimei, indicated for the treatment of diabetes, are both important Category 1 innovative drugs and were approved for marketing. After negotiations on the NRDL in 2019, Mailingda, a Category 1 innovative drug, successfully renewed its inclusion into the NRDL, and was included into the Guideline of Clinical Diagnosis for Intra-abdominal Infection (腹腔感染臨床診治指南). In April 2019, we submitted an application for marketing of the third-generation EGFR, Ameile, which was approved for marketing in March 2020. Our Group actively sought external cooperation to introduce the CD19 monoclonal antibody, the first of its kind in the world, and plans to develop in China a number of indications, including rare diseases. In addition, several first-to-market generic drugs were approved for marketing, which strengthened our Group's presence in its competitive therapeutic areas.

The year 2019 was the year during which our Group has built upon its past achievements and made new progress, and was a year of innovation and enhancement for our Group. Hansoh Pharmaceutical was officially listed on the Stock Exchange in June 2019, and was added to a number of major stock indexes around the world, including MSCI.

Looking ahead, the year 2020 will be the second year of embracing the initiative of "Healthy China" (健康中國). We will continue to create excellence in pharmaceuticals, enhance innovation in China, serve a vast population of patients with quality pharmaceutical services, and reward our shareholders with outstanding sales performance.

I hereby would like to express my sincere gratitude to our shareholders, members of the Board, the management of our Group, all our staff, as well as our business partners.

Ms. Zhong Huijuan
Chairlady and Chief Executive Officer

Management Discussion and Analysis

INDUSTRY REVIEW

China's economic growth was stable during 2019, with its gross domestic product growing at a rate of 6.1% year on year. During the same period, the continuous and further implementation of the national medical reform has brought significant challenges and opportunities to the entire pharmaceutical industry. Under the general environment of price control over the medicines covered by medical insurance, the "4+7" scheme for centralized tendering with minimum procurement quantities has been implemented successively since March, and the centralized tendering scheme in the allied regions was extended nationwide while the second batch of nationwide centralized tendering was initiated in December, in order to promote the improvement of the product quality of enterprises and to exert pressure on enterprises to lower their pricing at the same time. The working model of the adjustment to the National Reimbursement Drug List ("**NRDL**", 國家醫保藥品目錄) led by the National Healthcare Security Administration (國家醫保局) was consolidated, and the dynamic adjustment of the NRDL has entered into a normal state. The system of including innovative drugs in the NRDL upon negotiations is basically sound, under which a wide range of innovative drugs are included in the NRDL based on the clinical value and taking into account the efficacy, safety and cost-effectiveness of drugs. The national piloting of payment systems based on diagnosis related groups (DRGs) has promoted the standardized treatment of medical institutions. Under such a multi-directional and profound reform situation, innovation has become the core driving force for the development of pharmaceutical enterprises. Enterprises with strong innovation ability, rich product pipelines, high level of product quality, guaranteed production and supply, along with excellent commercialization capabilities, have the opportunity to further build and continuously expand their advantages in the complex and volatile environment through a combination of measures.

BUSINESS REVIEW

During the year, the Group's main achievements and awards are as follows:

In April 2019, an application for marketing was made in respect of the third-generation epidermal growth factor receptor ("**EGFR**") inhibitor, almonertinib tablets (HS-10296), which was accepted for new drug priority review and is a self-developed innovative drug indicated for the treatment of patients with non-small cell lung cancer with EGFR-T790M mutation. It is expected to significantly prolong the life expectancy of targeted patients after its launch.

In May 2019, the long-acting GLP-1 receptor agonist Fulaimei (polyethylene glycol loxenatide for injection), which is a self-developed innovative drug, was approved for launch, providing a better treatment choice for diabetes patients in China and significantly improving their medication experience and quality of life.

In May 2019, we signed a cooperation agreement with Viela Bio, Inc. to develop CD19 monoclonal antibody inebilizumab in the PRC for the treatment of neuromyelitis optica spectrum disorder ("**NMOSD**") as well as other autoimmune diseases and hematological malignancies.

In November 2019, Hansoh Xinfu (flumatinib mesylate), a Category 1.1 innovative drug self-developed by the Company, was approved for marketing in China and is indicated for the treatment of chronic myelogenous leukemia.

During the year under review, we also obtained the production approvals for Apixaban tablets, Vildagliptin tablets, fosaprepitant dimeglumine for injection and canagliflozin tablets, all of which are domestic first-to-market generic drugs and together with linezolid tablets are considered to have passed the consistency evaluation. Cefdinir capsules were the first to pass the consistency evaluation.

BUSINESS REVIEW *(Continued)*

During the year under review, the application for the production of our innovative drug almonertinib was submitted, and the clinical trial application for HS-10342 was submitted and we obtained implied permission to conduct phase I clinical trials. In addition, we submitted applications for marketing in respect of Paliperidone extended-release tablets, Dabigatran etexilate capsules, dexlansoprazole enteric-coated capsules and lenalidomide capsules.

During the year under review, our oncology injectable product Pulaile obtained U.S. FDA certification. The new 2019 edition of the NRDL was announced, in which our drugs listed in the 2017 edition were not removed and one drug, i.e. metformin hydrochloride repaglinide tablets, was included. The agreement with the National Healthcare Security Administration was renewed successfully through negotiation to enable the continuous inclusion of Mailingda in the NRDL. The construction of the high-end pharmaceutical products R&D center and phase 1 production base in Changzhou has been completed, which are to be put into use. The construction of the biological drugs production base started.

During the year under review, the Company actively made adjustments in response to the national medical reform policy. Following the success of Oulanning and Xinwei being selected for the “4+7” scheme for centralized tendering with minimum procurement quantities, these two drugs further won the bid within the expanded nationwide range and maintained their stable growth throughout the year. In respect of our existing competitive areas, the Company strengthened academic facilities and publicity activities and continuously improved product coverage, so as to ensure the achievement of performance targets, leading market share and steady growth. After the launch of Hansoh Xinfu (flumatinib mesylate) and Fulaimei (polyethylene glycol loxenatide for injection), the Company has strengthened its professional academic team facilities. The existing clinical data and clinical experience of the Company has been highly recognized by clinical experts. Meanwhile, the Company cooperated with professional institutions to carry out post-marketing clinical research projects and accumulate more sufficient clinic-based evidence. The Company will subsequently organize and expand the chronic disease management to help patients improve their disease course management.

For the year ended December 31, 2019, the Group recorded revenue of approximately RMB8,683 million during the year under review, representing an increase of approximately 12.4% compared with the previous year; net profit of approximately RMB2,557 million, representing an increase of approximately 34.3% compared with the previous year; and earnings per share of approximately RMB0.47, representing an increase of approximately 22.6% compared with the previous year.

REVENUE

We generate substantially all of our revenue from sales of pharmaceutical products. Most of our main products are in the CNS diseases, oncology, anti-infectives and other main therapeutic areas we strategically target. The growth in our total revenue was primarily attributable to the increase in sales of products in each of our therapeutic areas.

REVENUE *(Continued)*

CNS disease products

Our CNS disease drug portfolio mainly consists of, among others, Oulanning (olanzapine tablets) and Ameining (agomelatine tablets). For the year ended December 31, 2019, revenue from our CNS disease drug portfolio amounted to approximately RMB2,171 million, accounting for approximately 25.0% of our total revenue.

Oulanning is the first-to-market generic of olanzapine in China, which is indicated for treatment of schizophrenia, mania and bipolar affective disorder, typically prescribed for long-term use. After its launch, Oulanning has been widely recognized clinically for its excellent efficacy and quality. In comparison with original schizophrenia drugs, olanzapine is indicated for a wider range of indications. Olanzapine also has faster control of acute symptoms and the occurrence rate of extrapyramidal reactions is either small or insignificant. In 2014, Oulanning won the second prize for the Advancement of Science and Technology Award (國家科技進步二等獎). In May 2018, Oulanning became the first olanzapine tablets to pass the consistency evaluation. During the year under review, revenue from Oulanning maintained steady growth.

Oncology products

In respect of oncology products, we primarily focus on drugs for the treatment of solid tumors with high incidence such as lung cancer and breast cancer, as well as hematological cancer. Our oncology drug portfolio mainly consists of Hansoh Xinfu (flumatinib mesylate) which was newly launched in 2019, Pulaile (pemetrexed disodium for injection), Zefei (gemcitabine hydrochloride for injection), Xinwei (imatinib mesylate tablets), Xinmei (decitabine for injection), Xintai (bortezomib for injection) and Tanneng (fosaprepitant dimeglumine for injection). For the year ended December 31, 2019, revenue from our oncology drug portfolio amounted to approximately RMB3,530 million, accounting for approximately 40.6% of our total revenue.

Xinwei is the first-to-market generic of imatinib, which is indicated for the targeted treatment of, among others, Philadelphia chromosome-positive chronic myelogenous leukemia and acute lymphocytic leukemia, gastrointestinal stromal tumors. Unlike chemotherapy drugs, imatinib is typically prescribed for long-term use. In May 2018, Xinwei became the first imatinib mesylate tablets to pass the consistency evaluation. Pulaile is the first-to-market generic of pemetrexed, which is indicated for the treatment of non-small cell lung cancer and malignant pleural mesothelioma, and is the first-line chemotherapeutic drug. Pulaile obtained the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) certification in 2016 and obtained U.S. FDA certification in 2019. Zefei is the first-to-market generic of gemcitabine, which is indicated for the treatment of middle and late-stage non-small cell lung cancer, breast cancer, and pancreatic cancer, and is the first-line typical chemotherapeutic drug. In 2013, Zefei obtained U.S. FDA certification. In 2013, Zefei won the second prize for the Advancement of Science and Technology Award (國家科技進步二等獎). Since its launch in 2001, Zefei has taken a leading position in the gemcitabine market and increased penetration into country markets through our professional academic promotion and active expansion of its scope of clinical application. During the year under review, revenue from oncology product portfolio also remained steady.

REVENUE *(Continued)*

Anti-infective products

Our anti-infective drug portfolio mainly consists of, among others, Mailingda (morinidazole sodium chloride injection), Zetan (tigecycline for injection), Hengjie (linezolid glucose injection) and Hengsen (micafungin sodium for injection). The Company mainly focuses on drug-resistant bacteria products as the clinical needs of these products are increasing. Meanwhile, the Company maintains rational drug use as the guiding direction for academic activities of anti-infective drugs, to promote the regulated clinical use of anti-infective drugs. For the year ended December 31, 2019, revenue from our anti-infective drug portfolio amounted to approximately RMB1,829 million, accounting for approximately 21.1% of our total revenue.

Mailingda is our first self-developed innovative drug, and is also the latest generation of nitroimidazole-class drug indicated for treatment of pelvic inflammation, gangrenous appendicitis and suppurative appendicitis caused by certain bacteria in adults. It has a better safety profile than the previous generation of typical drug named ornidazole. In 2017, Mailingda was included in the NRDL after negotiation. The agreement with the National Healthcare Security Administration was renewed successfully in November 2019 through negotiation. During the year under review, revenue from Mailingda met our expectation.

Gastrointestinal, diabetes and cardiovascular products

Our drug portfolio of this segment mainly consists of, among others, Fulaimei (polyethylene glycol loxenatide for injection), Fulaidi (repaglinide tablets), Fulairui (canagliflozin tablets), Ruibote (rabeprazole sodium enteric-coated tablets), Zexin (apixaban tablets) and Ruiyisheng (prucalopride succinate tablets). For the year ended December 31, 2019, revenue from the drug portfolio in relation to the abovementioned areas amounted to approximately RMB1,153 million, accounting for approximately 13.3% of our total revenue.

Fulaimei (polyethylene glycol loxenatide for injection) is our self-developed innovative diabetes drug. With clear hypoglycemic efficacy and high safety, it requires only one injection per week, providing a new treatment choice to diabetes patients in China. Fulaimei is also the first innovative drug launched by using our proprietary PEGylation technology.

RESEARCH AND DEVELOPMENT

We have one of the largest R&D teams among pharmaceutical companies in China. Our dedicated professional R&D team consists of thousands of researchers working in two centres in Shanghai and Lianyungang. We have several national-level R&D designations, including the National Technology Center (國家級技術中心), Post-doctoral Research Station (博士後科研工作站) and Key National Laboratory (國家重點實驗室).

For the year ended December 31, 2019, R&D expenditure amounted to approximately RMB1,121 million, representing approximately 12.9% of our revenue. The R&D expenditure during this year increased by approximately 27.2% as compared with the previous year. On the one hand, we continued to make more investments in our independent R&D, resulting in continued increase in the clinical trial expenses of innovative drugs. On the other hand, we also introduced international advanced varieties through cooperation. The relevant expenses for technology introduction for this year were approximately RMB138 million.

RESEARCH AND DEVELOPMENT *(Continued)*

We focus on R&D of innovative products in the fields such as CNS diseases, oncology, anti-infectives and diabetes. At present, we have more than 100 research projects, including 4 innovative drug projects entering into the phase II and post-phase II phases of clinical trials, and 20 projects which are for the development of bioequivalency (BE) (including the application for production). During the year under review, the Company has newly applied for and obtained clinical approvals of 2 drugs, and filed applications for marketing of 10 drugs, out of which 7 new drugs (including two innovative drugs and four first-to-market generic drugs) have been granted approval and among which 1 drug has passed the consistency evaluation. Among these, the self-developed innovative drug Fulaimei (polyethylene glycol loxenatide) has been approved for marketing. It has clear hypoglycemic efficacy and high safety, and is only required to be injected once a week, providing a new treatment choice for diabetes patients in China. Fulaimei is also the first-to-market innovative drug launched by using our proprietary PEGylation technology, which builds greater confidence for subsequent application of such technology. Hansoh Xinfu (flumatinib mesylate), a self-developed innovative drug, has been approved for launch during the year. This drug is a second-generation TKI targeting Bcr-Abl for the treatment of chronic myelogenous leukemia. Based on the results of existing clinical trials, its efficacy is greater than imatinib, no pleural effusion or cardiotoxicity which was incurred in the use of other second-generation drugs was found and its safety is higher. Almonertinib tablets (HS-10296), a self-developed innovative and a third-generation EGFR-TKI drug, has been accepted for new drug priority review after applying for marketing. It is indicated for treatment of patients with non-small cell lung cancer with EGFR-T790M mutation and is expected to significantly prolong the life expectancy of target patients upon its launch; meanwhile, the phase III clinical trials for patients with non-small cell lung cancer with EGFR mutation have completed the enrollment of patients for all clinical trials during the year under review. HS-10234, a self-developed innovative drug, has completed the enrollment of patients for all clinical trials during the year under review, and is expected to submit new drug application in 2020. This drug is expected to be used for the treatment of hepatitis B, and improves the efficacy while significantly reducing toxic side effect as compared with its previous generation of drug (TDF).

In addition to investment in R&D internally, the Group also actively sought external cooperation and acquisition opportunities. In May 2019, we entered into a cooperation agreement with Viela Bio, Inc. for the development of CD19 monoclonal antibody inebilizumab to treat NMOSD and other autoimmune diseases and hematologic malignancies in the PRC. NMOSD is a rare autoimmune disease in which overactive immune cells and autoantibodies in the patients attack the optic nerve and spinal cord, causing blindness, paraplegia, sensory loss, bladder dysfunction, and peripheral pain.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended December 31, 2019, the Group's operating activities generated a net cash inflow of approximately RMB3,330 million. The turnover days of both trade receivables and inventory experienced a decrease. The capital expenditure for the year was RMB612 million, mainly relating to the construction, purchase of additional land, buildings and workshops, and the purchase of equipment, motor vehicles and software required for production, R&D and administrative activities. The Group's cash flow of financing activities for the year mainly consisted of the receivables upon the Listing of approximately RMB7,852 million and the payment of RMB1,500 million for our undistributed dividends declared before the Listing.

The Group's financial position remains sound. As at December 31, 2019, we had cash and bank balances of RMB8,238 million (as at December 31, 2018: RMB965 million), financial assets at fair value through profit or loss of RMB2,772 million (as at December 31, 2018: RMB2,016 million), and other financial assets of RMB3,583 million (as at December 31, 2018: RMB512 million). As at December 31, 2019, our financial assets at fair value through profit or loss and other financial assets primarily comprise of investments in financial products issued by commercial banks. Our purchase of financial products after the Listing does not constitute notifiable transactions of the Company under the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). As at December 31, 2019, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 33.4% (as at December 31, 2018: 70.7%).

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Most of the Group's assets and liabilities are denominated in Renminbi, United States Dollars and Hong Kong Dollars. The Group manages its foreign exchange risk by closely monitoring its net foreign exchange exposure to reduce the impact of foreign exchange fluctuations.

PLEDGE OF GROUP ASSETS

As at December 31, 2019, none of the Group's assets was subject to any encumbrance, mortgage, lien, charge or pledge.

CONTINGENT LIABILITIES

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

SIGNIFICANT INVESTMENTS HELD

During the year ended December 31, 2019, we did not have any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at December 31, 2019, the Group did not have any plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended December 31, 2019, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

EMPLOYEES AND EMOLUMENTS POLICY

As at December 31, 2019, the Group had a total of 9,178 full-time employees, whose remuneration is determined based on their performance and experience as well as the prevailing market salary level. The staff costs, including remuneration of the directors of the Company, social welfare and other benefits, were approximately RMB1,566 million for the year ended December 31, 2019. We also provide regular training to employees designed to strengthen staff commitment to us and improve staff knowledge in a number of important areas of our services, such as knowledge about the Company and our products as well as sales, laws and regulations applicable to our operation, requirements under applicable GMP or other certifications, quality control, production safety and corporate culture.

We have conditionally approved and adopted a scheme for the grant of restricted share units ("**RSU Scheme**") on May 27, 2019 to recognize contributions by selected participants and give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. For details of the RSU Scheme, please refer to the prospectus of the Company dated May 31, 2019. As at December 31, 2019, no restricted share unit had been granted by the Company pursuant to the RSU Scheme.

Management Discussion and Analysis

EVENTS AFTER THE REPORTING PERIOD

After December 31, 2019, the following material events have occurred to the Company:

In March 2020, "almonertinib mesylate tablets" (product name "**Ameile**" (阿美樂®)), a Category 1 innovative drug developed by Jiangsu Hansoh Pharmaceutical Group Co., Ltd. (江蘇豪森藥業集團有限公司), a subsidiary of the Company, has been granted drug registration approval by the National Medical Products Administration of the PRC, and is indicated for treatment of patients with locally advanced or metastatic non-small cell lung cancer with T790M mutation, who have progressed on or after EGFR-tyrosine kinase inhibitor therapy.

In early 2020, the Company actively donated supplies and funds to affected areas through charitable organizations after the outbreak of novel coronavirus (COVID-19), so as to help combat the pandemic.

Meanwhile, the Company took scientific countermeasures to resume work normally to ensure the progress of each business segment such as production, R&D and operation. The short-term impact on product promotion of the Company is under control.

The Company will continuously monitor the development of the pandemic and assess relevant impact on the overall operations performance of the Group.

On April 22, 2020, the Company entered into a placing agreement (the "**Placing Agreement**") with Morgan Stanley & Co. International plc and Citigroup Global Markets Limited (collectively, the "**Placing Agents**") pursuant to which the Placing Agents agreed to, as agents of the Company, procure certain placees for, or failing which to purchase themselves, 130,380,000 new Shares to be issued by the Company under general mandate at the placing price of HK$26.75 per placing share on the terms and subject to the conditions set out in the Placing Agreement. For more details, please refer to the announcement of the Company dated April 22, 2020.

Prospects

Given the acceleration of population aging in China and the continuously growing income level of Chinese residents, there is a rapid increase in health awareness and medical demand from the general public in China, leading to a growth in healthcare expenditure year by year. Cost control serves as an important initiative in the PRC medical reform. The scheme for centralized tendering with minimum procurement quantities of drugs fully implemented last year has a far-reaching impact on the development of the PRC pharmaceutical industry, which not only imposes pressure on pharmaceutical manufacturers to reduce prices, but also accelerates the process of industry differentiation and integration, promoting the sound and sustainable development of the industry. In the past few years, the PRC government has been continuously increasing medical investment in major diseases. In 2018, the PRC government held special negotiations on the inclusion of selected oncology drugs into the NRDL. In 2019, the PRC government carried out the largest negotiation on the inclusion of exclusive and patented drugs into the NRDL since the establishment of our medical insurance system, and introduced policies to support the development of medicines for chronic diseases including diabetes and hypertension, rare diseases and children, so as to meet the people's profound need for healthy life this year. Meanwhile, the establishment of dynamic adjustment mechanism of medical insurance and the implementation of a series of supporting measures, such as speeding up the review by the drug administration department, ensure the realization of objectives of medical reform policy. In the PRC pharmaceutical market with huge potential, the industry reform brings both opportunities and challenges to the development of pharmaceutical manufacturers, therefore the manufacturers' comprehensive competitiveness is critical to their future development. In the future, we will continue to enhance our core competitiveness in, among others, the fields of R&D, sales and production. The management of the Group is confident that, with the Group's strong competitive positioning of its innovative products, its strong product pipeline and its proven R&D capabilities, the Group is well positioned to enter a new phase of rapid growth.

Corporate Governance Report

Hansoh Pharmaceutical Group Company Limited (the "**Company**") is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of governance that properly protects and promotes the interests of all shareholders and enhances corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company has adopted the CG Code as its own code of corporate governance. The CG Code has been applicable to the Company with effect from June 14, 2019 (the "**Listing Date**").

The Company has complied with all applicable code provisions as set out in the CG Code during the period from the Listing Date to December 31, 2019, save for code provisions A.2.1 and A.5.1 of the CG Code as disclosed in this report. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

A. BOARD OF DIRECTORS

Board of Directors

The businesses of the Company are managed and conducted by the board (the "**Board**") of directors (the "**Directors**") of the Company. The Board is responsible for leading and controlling the Company and its subsidiaries (the "**Group**"), promoting the success of the Company by guiding and overseeing the affairs of the Group, and making decisions objectively in the best interests of the Company.

The Board will regularly review the contribution required from a Director to perform his/her responsibilities to the Group, and whether the Director is spending sufficient time performing them. Each Director should also disclose to the Company in a timely manner for any change, the number and nature of offices held in public companies or organizations and other significant commitments.

To oversee particular aspects of the Company's affairs, the Board has established three Board committees, including the Audit Committee (the "**Audit Committee**"), the Remuneration Committee (the "**Remuneration Committee**") and the Strategy and Development Committee (the "**Strategy and Development Committee**"). The Board has delegated to the Board committees the responsibilities as set out in their respective terms of reference.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against its Directors, and will conduct annual review on such insurance coverage.

Board Composition

As at December 31, 2019, the Board comprised three executive Directors (including the Chairlady and Chief Executive Officer), one non-executive Director and three independent non-executive Directors.

Position	Name
Executive Director	Ms. Zhong Huijuan (Chairlady and Chief Executive Officer) Mr. Lyu Aifeng Miss Sun Yuan
Non-executive Director	Ms. Ma Cuifang
Independent Non-executive Director	Mr. Lin Guoqiang Mr. Chan Charles Sheung Wai Ms. Yang Dongtao

A. BOARD OF DIRECTORS (Continued)

Board Composition (Continued)

The biographical details of Directors and the relations of Board members are set out in the section headed "Biographical Details of Directors and Senior Management" in this Annual Report.

Independent Non-executive Directors

In compliance with Rules 3.10 and 3.10(A) of the Listing Rules, the Company has appointed three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate Governance Functions

The Board is responsible for the following functions:

- convening general meetings;
- reporting the Board's work at these meetings;
- implementing resolutions passed in these meetings;
- determining business and investment plans;
- formulating our annual budget and final accounts and formulating our proposals for dividend distribution;
- suggesting the increase or reduction of registered capital;
- developing, reviewing and monitoring the code of conduct and compliance manual, applicable to employees and directors;
- reviewing the Group's compliance with the CG Code and disclosure in the Corporate Governance Report;
- reviewing and monitoring the Group's policies and practices in compliance with legal and regulatory requirements;
- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring training and continuous professional development of Directors and senior management; and
- performing other authorities, functions and responsibilities in accordance with the Articles of Association of the Company (the "**Articles**").

During the year under review, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of its Directors and senior management, the Company's own code of conduct regarding securities transactions of the Company by Directors and relevant employees (the "**Company Code**"), and the Company's compliance with the CG Code.

A. BOARD OF DIRECTORS *(Continued)*

Responsibilities of the Board and the Management

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Chairlady and Chief Executive Officer

Code provision A.2.1 of the CG Code states that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company has appointed Ms. Zhong Huijuan ("**Ms. Zhong**") as both the chairlady and the chief executive officer of the Company. Due to the nature and the extent of the Group's operations and Ms. Zhong's in-depth knowledge and experience in the PRC pharmaceutical industry, the Board considers that the balance of power and authority under the present arrangement is not impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairlady of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the Directors is engaged on a service contract (for executive Director) for a term of three years, an appointment letter (for non-executive Director) for a term of one year or an appointment letter (for independent non-executive Director) for a term of three years, commencing from the Listing Date and is subject to retirement by rotation and re-election pursuant to the Articles and the Listing Rules.

In accordance with the Articles, one third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and any Director appointed by the Board or elected by the shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the next general meeting of the Company after his/her appointment and be subject to re-election at such meeting.

Training and Continuous Professional Development

Directors

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, in order to make sure that he/she has appropriate understanding of the business and operations of the Company and is fully aware of his/her duties and responsibilities under the Listing Rules and other relevant regulatory requirements.

A. BOARD OF DIRECTORS *(Continued)*

Training and Continuous Professional Development *(Continued)*

Directors *(Continued)*

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate.

Immediately prior to the Listing, all Directors have been given the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest.

In addition, relevant reading materials including legal and regulatory updates have been provided to the Directors for their reference and studying. Internal training sessions were also arranged for the Directors during the year under review, which cover topics including but not limited to connected transactions and the continuing disclosure obligations of a listed corporation.

During the year under review, the Directors participated in the following trainings:

Directors	Type(s) of Training [Note]
Executive Directors	
Ms. Zhong Huijuan	A and B
Mr. Lyu Aifeng	A and B
Miss Sun Yuan	A and B
Non-executive Director	
Ms. Ma Cuifang	A and B
Independent non-executive Directors	
Mr. Lin Guoqiang	A and B
Mr. Chan Charles Sheung Wai	A and B
Ms. Yang Dongtao	A and B

Note:

Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Joint Company Secretaries

The Company Secretaries are responsible for facilitating the Board process, as well as communications among the Board members, shareholders and management. Ms. Zhong Shengli, together with Ms. Li Yan Wing Rita of Tricor Services Limited, which is an external service provider, has been engaged by the Company as its joint company secretaries. The biographical information of Ms. Zhong Shengli and Ms. Li Yan Wing Rita are set out in the section headed "Biographical Details of Directors and Senior Management" of this Annual Report. Ms. Zhong Shengli and Ms. Li Yan Wing Rita have confirmed that they have taken not less than 15 hours of relevant professional training during the year ended December 31, 2019 in compliance with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Ms. Zhong Shengli.

A. BOARD OF DIRECTORS (Continued)

Committees

The Board has established the following committees: Audit Committee, Remuneration Committee and Strategy and Development Committee. The committees operate in accordance with their respective terms of reference established by the Board. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and of the Stock Exchange and are available to shareholders upon request. The majority of the members of each Board committee (except the Strategy and Development Committee) are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" of this Annual Report.

Audit Committee

The Audit Committee consists of two independent non-executive Directors, namely, Mr. Chan Charles Sheung Wai (chairman of the Audit Committee) and Mr. Lin Guoqiang, and one non-executive Director, namely, Ms. Ma Cuifang.

The major duties and responsibilities of the Audit Committee are set out clearly in its terms of reference, which include assisting the Board in reviewing the financial information and reporting system, risk management and internal control system, relationship with external auditors, and reviewing arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee also performs the responsibilities as set out in the CG Code.

The consolidated financial statements of the Group for the year ended December 31, 2019 have been reviewed by the Audit Committee and the external auditor. The Audit Committee is of the view that the consolidated financial statements of the Group for the year ended December 31, 2019 comply with the applicable accounting standards and the Listing Rules, and that sufficient disclosures have been made.

According to paragraph C.3.3(e)(i) of the CG Code, the Audit Committee must meet with the Company's auditors at least twice a year. During the year ended December 31, 2019, two meetings were held by the Audit Committee to review the unaudited financial statements for the six months ended June 30, 2019 as the Company was only listed on the main board of the Stock Exchange on June 14, 2019. The Audit Committee held a meeting on March 30, 2020 to review the consolidated financial statements for the year ended December 31, 2019 as well as the effectiveness of the internal audit function of the Company and any recommendations on the management and control of internal risks. All members of the Audit Committee attended the meetings in person.

Remuneration Committee

The Remuneration Committee consists of three members: two independent non-executive Directors, namely, Ms. Yang Dongtao (chairlady of the Remuneration Committee) and Mr. Lin Guoqiang, and one executive Director, namely, Ms. Zhong.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

A. BOARD OF DIRECTORS *(Continued)*

Remuneration Committee *(Continued)*

During the year ended December 31, 2019, the Remuneration Committee held one meeting to consider and recommend to the Board the remuneration and other benefits paid by the Company to the Directors and senior management and other related matters. All members of the Remuneration Committee attended the meeting in person. The emoluments of Directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time commitment in the Group's affairs and performance of each Director as well as salaries paid by comparable companies and the prevailing market conditions.

Strategy and Development Committee

The Strategy and Development Committee consists of four members: two executive Directors, namely, Ms. Zhong (chairlady of the Strategy and Development Committee) and Mr. Lyu Aifeng, and two independent non-executive Directors, namely, Mr. Chan Charles Sheung Wai and Ms. Yang Dongtao.

The primary duties of the Strategy and Development Committee include conducting research and making suggestions for the medium-to-long-term development strategy and development plans of the Company, considering the annual operation plans and investment proposals of the Company, as well as conducting research and making suggestions for any expansion to new markets, launch of new business and R&D of new products of the Company.

During the year ended December 31, 2019, the Strategy and Development Committee held one meeting to evaluate the development of the Company in 2019 and consider the future development strategies and plans, including, without limitation, the discussion about major investments, financing, reorganization, and plans for expansion to new markets, launch of new business and development of new products. All members of the Strategy and Development Committee attended the meeting in person.

Nomination Committee

Code provision A.5.1 of the CG Code states that issuers should establish a nomination committee. The Company did not establish a nomination committee as the Board considers that, having considered the size of the Group, the determination of appointment and removal of Directors is a collective decision of the Board. The Board is empowered under the Articles to appoint any person as a Director either to fill a casual vacancy on or as an addition to the Board. The Board will select and recommend candidates for directorship and senior management having regard to the balance of skills, experience and qualifications appropriate to the Group's business.

Director Nomination Policy

The Company has established a director nomination policy which aims to render clear basis and procedures for the nomination and appointment of Directors. The Board will take into account factors such as character and integrity, qualifications, skills, experience, independence and diversity of the candidates, and whether or not the candidate is willing and able to devote adequate time to discharge duties as a member of the Board and Board committee upon receipt of the proposal of appointment of new Directors or the nomination proposal made by shareholders at general meetings of the Company. When Directors are re-elected at general meetings, apart from the above standards, the Board will also review the overall contributions and services of retiring Directors to the Company and their level of participation and performance in the Board.

A. BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy

The Company has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity of the Board in order to enhance its effectiveness. Pursuant to the Board Diversity Policy, the Board seeks to achieve its diversity through the consideration of a number of factors when selecting candidates to the Board, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service.

The Directors have a mix of knowledge and skills of, including, management, strategic development, business development, sales, R&D, industry research, investment management, finance, corporate finance, risk management, education, chemistry and the pharmaceutical industry. They obtained degrees in various areas including chemistry, organic chemistry, biomedical engineering, biomedical sciences, management, business administration, commerce, engineering, economics and corporate management. The age of Directors ranges from 33 years old to 77 years old.

The Board is responsible for reviewing its diversity. The Board will continue to monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Attendance of Board Meetings and Committee Meetings

The Board held two regular meetings in 2019. Details of the attendance of Directors at the Board meetings, committee meetings and general meetings during the year under review are set out below:

Number of meetings attended/held

Directors	Board	Audit Committee	Remuneration Committee	Strategy and Development Committee	General Meeting
Number of meetings	2	2	1	1	–
Executive Directors					
Ms. Zhong Huijuan	2	–	1	1	–
Mr. Lyu Aifeng	2	–	–	1	–
Miss Sun Yuan	2	–	–	–	–
Non-executive Director					
Ms. Ma Cuifang	2	2	–	–	–
Independent Non-executive Directors					
Mr. Lin Guoqiang	2	2	1	–	–
Mr. Chan Charles Sheung Wai	2	2	–	1	–
Ms. Yang Dongtao	2	–	1	1	–

Under the code provision A.1.1 of the CG Code, board meetings should be held at least 4 times a year at approximately quarterly intervals. Since the Company was listed in June 2019, the Directors consider that they have met regularly even though the number of board meetings was only two in 2019.

A. BOARD OF DIRECTORS *(Continued)*

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Company Code on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. The Company Code has been applicable to the Company with effect from the Listing Date. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Company Code for the period from the Listing Date to December 31, 2019.

No incident of non-compliance of the Company Code by the employees was noted by the Company.

Remuneration of Senior Management

There were 5 employees classified as senior management for the year ended December 31, 2019. The remuneration of the senior management by band is set out below:

	Number of employee(s)
Below RMB500,000	0
RMB500,000 to RMB1,000,000	1
RMB1,000,001 to RMB1,500,000	1
Above RMB1,500,000	3
	5

B. ACCOUNTABILITY AND AUDIT

Directors' Responsibility in respect of the Financial Statements

The Board acknowledges its responsibility for preparing the accounts which seek to give a true and fair view of the state of affairs of the Company and the Group, with necessary supporting assumptions or qualifications. The Directors also ensure the timely publication of the financial statements of the Company.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavors to ensure a balanced, clear and understandable assessment of the Company's position and prospects when the Company presents financial reports and other information to general public and regulators pursuant to the Listing Rules and other statutory requirements.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board continues to prepare the financial statements on a going concern basis.

Risk Management and Internal Control

The Company is dedicated to establishing and maintaining a robust internal control system. The Company has adopted and implemented risk management policies in various aspects of our business operations to address various potential risks in relation to our strategic plan, R&D, infrastructure, procurement, manufacturing, distribution and retail. Our risk management system also covers general finance management, human resources, information technology, projects, logistics, subsidiaries and policy matters.

B. ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failing in achieving our business objectives, and can only provide a reasonable and not absolute assurance against material misstatement or loss.

The Company has established a three-layer organizational framework (business departments, functional departments and internal control and audit department) to identify, analyze, categorize, control, and monitor various risks relating to our strategy, operation, market development, financial matters, legal matters, investment and financing, information security, anti-bribery and anti-money laundering.

Please refer to "Business-Production and Quality Control-Risk Management" in the Company's prospectus dated May 31, 2019 for details of risk management policies.

The Directors have conducted an annual review of the effectiveness of the risk management and internal control system of the Group during the year ended December 31, 2019, covering all major functions including finance, operation and compliance. Based on the review results, the Directors are of the opinion that the system is effective and sufficient.

The Company has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board has established an inside information team entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be led by the Board. Unless duly authorized, all staff members of the Company shall not disseminate inside information relating to the Group to any external parties and shall not respond to false media report or market speculation which may materially affect the trading price or volume of the shares.

Auditors' Remuneration

During the year under review, the remuneration paid to the external auditor of the Group, being Ernst & Young, is set out as follows:

	Fee paid/payable for the year *(RMB'000)*
Service category	
Audit services	4,886
Non-audit services	86
Total	4,972

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has adopted the shareholder communication policy with an aim to ensure that the shareholders of the Company and as and when appropriate, the general investors to have timely access to the same and readily comprehensible comprehensive information about the Company.

The Company conveys the information to the shareholders and investors mainly through the following channels:

- the website of the Stock Exchange on which the information disclosed to the market and submitted to the Stock Exchange is published;
- the website of the Company (**www.hspharm.com**);
- the interim reports and annual reports; and
- the annual general meeting and other general meetings.

To facilitate the exchange of views between the shareholders and the Board, the Board members (or their delegates (if applicable)), appropriate executive management personnels and the external auditor will attend the annual general meeting and answer the questions raised by the shareholders.

Rights of Shareholders

Pursuant to Article 12.3 of the Articles, any two or more members holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company, or any one member which is a recognized clearing house (or its nominee(s)) shall be entitled to require the convening of a general meeting with a written requisition deposited at the principal office of the Company in Hong Kong and specifying the objects of the meeting and signed by the requisitionist. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Shareholders may also contact the Investor Relations Department of the Company from time to time to understand the information published by the Company. The Company will inform the shareholders of the designated e-mail address and enquiry hotline of the Company so that they can make any inquiries of the Company.

Enquiry to the Board

Enquiry may be made to the Board at the principal place of business of the Company in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Company publishes on its website (**www.hspharm.com**) the latest company news relating to the Group on a regular basis. The public is welcome to provide opinions and make inquiries through the Company's website.

Amendments to the Constitutional Documents

In preparation for Listing, the Company has passed the resolution of shareholders to conditionally adopt the amended and restated Memorandum and Articles of Association on May 27, 2019. No changes have been made to the Articles by the Company from the Listing Date up to December 31, 2019. The latest version of Articles are also available on the websites of the Company and the Stock Exchange.

Directors' Report

The board (the "**Board**") of directors (the "**Directors**") of Hansoh Pharmaceutical Group Company Limited (the "**Company**") is pleased to submit this report and audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended December 31, 2019.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in the R&D, production and sales of a series of pharmaceutical products in China. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 14, 2019 (the "**Listing Date**").

Operating segment information of the Company for the year ended December 31, 2019 is presented in Note 4 to the consolidated financial statements, and a list of principal subsidiaries of the Company, together with the details of their places of incorporation, principal businesses and shares in issue/ registered capital, is set out in Note 1 to the consolidated financial statements. There are no changes in the principal business of the Group during the year.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended December 31, 2019 and the financial positions of the Company and the Group as at the same date are set out on pages 46 to 49 of the consolidated financial statements.

Save for the special dividends declared by the Company on May 27, 2019, the Board did not recommend payment of any other dividends for the year ended December 31, 2019.

DIVIDEND POLICY

The Company has adopted a dividend policy pursuant to code provision E.1.5 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). The Board may declare and pay dividends by way of cash or by other means that the Board considers appropriate. While deciding on the declaration or payment of any dividends and the amount of any dividends, the Board will take into account, among other things, the Company's results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits, contractual and legal restrictions and other factors that the Directors may consider relevant.

BUSINESS REVIEW

Details of the business review and performance of the Group during the year (including the description of the main risks and uncertainties facing the Group, material events affecting the Company that have occurred since the end of 2019, the key financial performance indicators and prospects) are set out in the "Chairlady's Statement" and "Management Discussion and Analysis" sections on pages 7 to 14 of this Annual Report, which form part of this report.

ANNUAL GENERAL MEETING

The annual general meeting of the Company ("**AGM**") will be held on Friday, June 5, 2020. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

CLOSURE OF REGISTER OF MEMBERS

To determine the right to attend and vote at the AGM, the Company will close the register of members between Tuesday, June 2, 2020 and Friday, June 5, 2020 (inclusive). To ensure the effect of right to attend and vote at the AGM, all shareholders shall return all the documents together with the related stocks to the Company's branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 pm on Monday, June 1, 2020.

Directors' Report

SUMMARY OF FINANCIAL INFORMATION

According to the audited consolidated financial statements and after reclassification as appropriate, the published results, assets, liabilities and net assets of the Group for the past four fiscal years is presented on page 6 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year are set out in Note 12 to the consolidated financial statements.

SHARE CAPITAL

The Company had 5,788,611,200 ordinary shares in issue as at December 31, 2019. The changes in the share capital and share option (if any) of the Company during the year, together with the reasons therefor, are set out in Note 26 to the consolidated financial statements.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the initial public offering of the shares of the Company in June 2019 and allotment and issuance of shares pursuant to the full exercise of the over-allotment option in July 2019 amounted to approximately HKD8.798 billion. The proposed use of the net proceeds was disclosed in the Company's prospectus dated May 31, 2019. As at December 31, 2019, the net proceeds utilized was approximately HKD1.813 billion and the remaining net proceeds was approximately HKD6.985 billion. The Company intends to continue to utilize the remaining net proceeds in the future for the purposes as set out in the prospectus. As at December 31, 2019, the use, net amount and expected time frame of the proceeds utilized by the Group were as follows:

Purpose	Percentage of the total amount	Net proceeds received (HKD100 million)	Utilized from the Listing Date to December 31, 2019 (HKD100 million)	Unutilized as at December 31, 2019 (HKD100 million)	Expected time frame
R&D programs, expanding our R&D team and investment in technologies	45%	39.59	5.10	34.49	The balance is expected to be fully utilized by 2025
Manufacturing system to construct new production lines and further automate existing production facilities	25%	21.99	3.79	18.20	The balance is expected to be fully utilized by 2023
Enhancement of sales and academic promotion	20%	17.60	6.12	11.48	The balance is expected to be fully utilized by 2023
Working capital and other general purposes	10%	8.80	3.12	5.68	The balance is expected to be fully utilized by 2023
Total	100%	87.98	18.13	69.85	

For more details, please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" of the prospectus.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles of Association of the Company (the "**Articles**") or the laws of Cayman Islands (the jurisdiction in which the Company was incorporated) which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION

Since the Listing Date and up to December 31, 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

TAX RELIEF AND EXEMPTION

The Company has no knowledge of any tax relief and exemption provided to the shareholders due to their holding of the Company's securities.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in Notes 27 and 37 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

For details of the reserves available for distribution of the Company as at December 31, 2019, please refer to the consolidated statement of changes in equity.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the sales to the Group's five largest customers and the purchases from the Group's five largest suppliers accounted for less than 30% of the total sales and 30% of the total purchases of the year, respectively.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The business of the Group is subject to national, provincial and local environmental laws and regulations in China. The main pollutants generated during our production process include waste water, waste gas and solid waste. We have established a pollution control system in order to comply with the applicable laws and regulations to adopt compliant and harmless disposal methods for different types of hazardous wastes, and to recycle the recyclable waste solvent and entrust units with hazardous waste disposal qualifications to burn or recycle other non-recyclable solvent. The environmental sanitation department of the plant is entrusted with the uniform disposal of non-hazardous wastes. We seek to reduce, treat and recycle the waste generated in our production process and improve our production technique to reduce the pollutants we discharge to the environment. For details of the relevant environmental policies and performance, please refer to the "Environmental, Social and Governance Report" in this Annual Report.

DONATIONS

During the year under review, the Group made charitable and other donations in an aggregate amount of approximately RMB38.661 million.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that the interests of stakeholders are vital to the sustainable development of its business operation and is committed to maintaining effective communication with the major stakeholders, including customers, suppliers and employees to enhance the relationship and cooperation for the long-term development of the Group.

The Group's customers are pharmaceutical product distributors. According to the industry practice, we will not engage our distributors to provide marketing and promotional services for our products. Our in-house sales and marketing team enhances professionals' knowledge and understanding of the usage, clinical effects and advantages of our drug products through its promotion efforts. We enter into annual distribution agreements with our distributors. We believe this distribution model helps extend our coverage in a cost-effective manner while allowing us to retain proper control over our distribution network and marketing and promotion process.

Employees are considered as the most important and valuable assets of the Group. The remuneration package for employees generally includes salary and bonuses. The Group conducts periodic performance reviews for employees, and their remuneration is performance-based. Employees also receive welfare benefits including medical care, housing subsidies, pension, occupational injury insurance and other miscellaneous benefits. The Group also provides regular training to employees designed to improve staff dedication and increase staff knowledge in a number of important areas of our services, which has enhanced the productivity of employees.

Directors' Report

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

As the Group mainly operates in China through its subsidiaries, it is subject to the Chinese laws and regulations relating to the R&D, production and distribution of pharmaceutical products, including but not limited to those on the quality, safety, environmental protection, intellectual property, labor and personnel. Meanwhile, as a company incorporated in the Cayman Islands and listed on the Stock Exchange, the Company is governed by the Company Law of the Cayman Islands, the Listing Rules and the Securities and Futures Ordinance ("**SFO**").

To the knowledge of the Board, the Group did not violate any relevant laws and regulations which would cause a material impact on the business and operation of the Group during the year ended December 31, 2019.

DIRECTORS

The Directors during the year and as at the date of this report were as follows:

Executive Directors:

Ms. Zhong Huijuan (also the Chairlady)
Mr. Lyu Aifeng
Miss Sun Yuan

Non-executive Director:

Ms. Ma Cuifang

Independent non-executive Directors:

Mr. Lin Guoqiang
Mr. Chan Charles Sheung Wai
Ms. Yang Dongtao

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, and the Company is of the view that such independent non-executive Directors are independent.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 35 to 40 of this Annual Report.

CHANGE IN DIRECTORS' INFORMATION

Save for the appointment of Mr. Chan Charles Sheung Wai as an independent non-executive director of Maoyan Entertainment (a company listed on the Main Board of the Stock Exchange with stock code: 1896) on January 10, 2019, the resignation of Mr. Chan Charles Sheung Wai as an independent non-executive director of CITIC Securities Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 6030) on May 27, 2019, the resignation of Miss Sun Yuan as a director of Jiangsu Hansoh Pharmaceutical Group Co., Ltd. ("**Jiangsu Hansoh**") on October 24, 2019, the appointment of Ms. Yang Dongtao as an independent non-executive director of Novoray Corporation (江蘇聯瑞新材料股份有限公司) (a company listed on the STAR Market of the Shanghai Stock Exchange on November 15, 2019 with stock code: 688300) on August 9, 2017, and the appointment of Mr. Lyu Aifeng as an executive director of Hansoh (Shanghai) Health Technology Co., Ltd. on September 19, 2019, there are no other changes in the Directors' biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SERVICE CONTRACTS OF DIRECTORS

None of the Directors has entered into any unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS AS WELL AS COMPETING BUSINESS

Save as disclosed in the section headed "Related Party Transactions" and Note 30 to the "Related Party Transactions" of the consolidated financial statements in this Annual Report, no contracts of significance (as defined in Appendix 16 of the Listing Rules) related to the business of the Company to which the Company, its holding companies or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2019 or at any time during 2019.

Save as disclosed in the "Relationship with our Controlling Shareholders – The Associate's Investee Group" section of the prospectus of the Company dated May 31, 2019, none of our Directors or their respective associates (as defined under the Listing Rules) has any interest in a business which competes or is likely to compete with our Group's business under Rules 8.10(2)(b) and 8.10(2)(c) of the Listing Rules.

DEED OF NON-COMPETITION

The controlling shareholders of the Company (i.e., Ms. Zhong Huijuan, Stellar Infinity Company Ltd. and Sunrise Investment Advisors Limited) have respectively acknowledged to the Company that they have honored the non-competition undertaking made to the Company under the deed of non-competition entered into on May 27, 2019 ("**Deed of Non-competition**"). The independent non-executive Directors have reviewed such compliance and confirmed that the above-mentioned parties had kept and duly performed all the undertakings under the Deed of Non-competition since the Listing Date and up to December 31, 2019.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 30 to the consolidated financial statements. Pursuant to Chapter 14A of the Listing Rules, none of such related party transactions constitutes a connected transaction or continuing connected transaction (as the case may be).

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

As at December 31, 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) required to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) 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**") set out in Appendix 10 of the Listing Rules were as follows:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

1. Interest in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest[1]
Ms. Zhong Huijuan[2]	Person with influence over a trust	3,900,000,000	67.37%
Miss Sun Yuan[2]	Beneficiary of a trust	3,900,000,000	67.37%

Notes:

(1) The calculation is based on the total number of 5,788,611,200 issued shares of the Company as at December 31, 2019.

(2) These ordinary shares in the Company are beneficially owned by Stellar Infinity Company Ltd. ("**Stellar Infinity**") which is a wholly-owned subsidiary of Sunrise Investment Advisors Limited ("**Sunrise Investment**"), which in turn is wholly owned by Harmonia Holding Investing (PTC) Limited (the "**Sunrise Trust Trustee**") as trustee for the Sunrise Trust (the "**Sunrise Trust**"), a discretionary trust set up by Miss Sun Yuan ("**Miss Sun**"). Ms. Zhong Huijuan ("**Ms. Zhong**") is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Miss Sun are deemed or taken to be interested in all the shares of the Company which are beneficially owned by Stellar Infinity for the purpose of Part XV of the SFO.

2. Interest in shares or underlying shares of associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares or underlying shares in the associated corporation	Percentage of shareholding interest in the associated corporation
Ms. Zhong Huijuan	Sunrise Investment[1]	Person with influence over a trust	100	100%
Miss Sun Yuan	Sunrise Investment[1]	Beneficiary of a trust	100	100%

Notes:

(1) Sunrise Investment is wholly owned by the Sunrise Trust Trustee, which is the trustee for the Sunrise Trust, a discretionary trust set up by Miss Sun. Ms. Zhong is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Miss Sun are deemed or taken to be interested in all the shares which are beneficially owned by the Sunrise Trust Trustee for the purpose of Part XV of the SFO.

Save as disclosed above, as at December 31, 2019, so far as is known to the Directors, none of the Directors and the chief executives of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company under Divisions 7 and 8 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2019, the interests or short positions of persons (other than the Directors and chief executives of the Company) in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest (1)
Stellar Infinity (2)	Beneficial owner	3,900,000,000	67.37%
Sunrise Investment (2)	Interest in controlled corporation	3,900,000,000	67.37%
Sunrise Trust Trustee (2)	Interest in controlled corporation	3,900,000,000	67.37%
Apex Medical (3)	Beneficial owner	950,000,000	16.41%
Mr. Cen Junda (3)	Interest in controlled corporation	950,000,000	16.41%

Notes:

(1) The calculation is based on the total number of 5,788,611,200 issued shares of the Company as at December 31, 2019.

(2) Stellar Infinity is a wholly-owned subsidiary of Sunrise Investment, which in turn is wholly owned by the Sunrise Trust Trustee.

(3) Apex Medical Company Ltd. ("**Apex Medical**") is wholly-owned by Mr. Cen Junda.

Save as disclosed above, as at December 31, 2019, so far as is known to the Directors, no person (not being a Director or chief executive of the Company) had or was deemed to have any interest or short position in the shares or underlying shares of the Company which was required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

Directors' Report

PERMITTED INDEMNITY PROVISION

In addition to the indemnities provisions as set out in the Articles, Directors' liability insurance is currently in place, and was in place during the year, to protect the Directors of the Company against potential costs and liabilities arising from claims against them.

SUFFICIENT PUBLIC FLOAT

In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange has granted the Company a waiver and accepted a lower public float of 16.21% of the Company's issued share capital.

From the Listing Date to the date of this Annual Report, according to the public information obtainable by the Company and to the knowledge of the Directors, the Company has maintained the minimum public float to the extent permitted by the Stock Exchange.

RESTRICTED SHARE UNIT SCHEME

We have conditionally approved and adopted a scheme for the grant of restricted share units ("**RSU Scheme**") on May 27, 2019 to recognize contributions by selected participants and give incentives to them in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. For details of the RSU Scheme, please refer to Appendix IV "Statutory and General Information – D. Post-IPO RSU Scheme" of the prospectus of the Company dated May 31, 2019. As at December 31, 2019, no restricted share unit had been granted by the Company pursuant to the RSU Scheme.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices adopted by the Company are set out in the section of "Corporate Governance Report" of this Annual Report.

AUDITOR

The consolidated financial statements for the year ended December 31, 2019 have been audited by Ernst & Young, which will retire at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution on the re-appointment of Ernst & Young as the auditor of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board
Ms. Zhong Huijuan *(Chairlady and Chief Executive Officer)*

March 30, 2020

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Ms. ZHONG Huijuan (鍾慧娟), aged 59, is the founder of our Group and currently the chairlady, chief executive officer and an executive Director of our Group. Ms. Zhong was appointed as a Director on December 2, 2015. Ms. Zhong was appointed as a director of Jiangsu Hansoh in September 1998. Ms. Zhong is primarily responsible for our Group's strategic development and planning, overall operations, sales and decision making, board governance and supervision of key management issues. Ms. Zhong is the mother of Miss Sun.

Ms. Zhong has approximately 30 years of experience in the pharmaceutical industry in China, with substantial experience in pharmaceutical enterprise operation and management, as well as extensive industry knowledge on the development and expansion of our oncology and psychotropic drug portfolio in their respective therapeutic areas. From September 1994 until the establishment of our Group, Ms. Zhong served at Lianyungang Drug Administration. Ms. Zhong has been responsible for our Group's overall development since its establishment. Under Ms. Zhong's leadership, our Group has developed into one of the few R&D-driven Chinese pharmaceutical companies with an established leadership position in some of the largest and fastest-growing therapeutic areas in China with significant unmet clinical needs. Our Group was recognized as a "Leading Enterprise in the Internationalization of Pharmaceuticals (製劑國際化先導型企業)" by the China Chamber Of Commerce For Import & Export Of Medicines & Health Products (中國醫保商會) and China Pharmaceutical Enterprises Association (中國醫藥企業管理協會) in 2014. Since 2016, our Group has been recognized as a National Enterprise Technology Center (國家級企業技術中心) and National Intellectual Property Exemplary Enterprise (國家知識產權示範企業). Our Group has also been continuously recognized as the Top 100 Most Powerful Chinese Pharmaceutical Industrial Enterprises (中國醫藥工業百強企業) by the China Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

Ms. Zhong is the vice president of the council of Jiangsu Pharmaceutical Association (江蘇省藥學會) and a standing supervisor of the China Quality Association for Pharmaceuticals (中國醫藥質量管理協會). Ms. Zhong was also elected as a representative of the 12th and 13th Jiangsu Provincial People's Congress (江蘇省人民代表大會).

Over the years, Ms. Zhong received numerous awards and recognitions for her contributions to both the pharmaceutical industry and pharmaceutical industrial and commercial enterprises. She received State Council Special Allowance in February 2013. In December 2013, she also received the "All China Federation of Industry Commerce Scientific and Technological Progress Award (first prize)" (中華全國工商業聯合會科技進步獎一等獎). In December 2014, Ms. Zhong received the "State Science and Technology Award (second prize)" (國家科技進步獎二等獎) from the State Council.

In July 1982, Ms. Zhong obtained her undergraduate degree in chemistry from Jiangsu Normal University (江蘇師範大學) (formerly known as Xuzhou Normal University (徐州師範學院)) in Xuzhou. She then obtained her Executive Master of Business Administration ("**EMBA**") from Nanjing University (南京大學) in December 2005.

Mr. LYU Aifeng (呂愛鋒), aged 43, is an executive Director of our Company. Mr. Lyu was appointed as a Director on March 11, 2016. Mr. Lyu was appointed as director and president of Jiangsu Hansoh in December 2015. Mr. Lyu is primarily responsible for overall management of the business operations and the scientific development of our Group, and the operations and management of certain subsidiaries of our Group.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Lyu has more than 20 years of technical and management experience in R&D and product quality control systems in the pharmaceutical industry. Mr. Lyu joined our Group in July 1998 and has served in various positions, including director of product development in August 2001, and director of research institution in March 2009. Mr. Lyu was also appointed as president of Jiangsu Hansoh, the general manager of Shanghai Hansen Technology Co., Ltd. ("**Shanghai Hansen**") and the executive director of Hansoh (Shanghai) Health Technology Co., Ltd. in December 2015, April 2016 and September 2019, respectively.

Mr. Lyu has obtained numerous awards and recognitions. Mr. Lyu obtained the "State Science and Technology Progress Award (second prize)" (國家科技進步獎二等獎) in 2013 and 2014. Mr. Lyu was recognized as a "Young Expert with Outstanding Contributions" (有突出貢獻的中青年專家) by the People's Government of Jiangsu Province (江蘇省人民政府) in March 2015. He was also chosen for the "100 Million Talents Programme" (國家百千萬人才工程) by the PRC Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部) in October 2017. He was further selected for the "Ten Thousand Talents Programme" (國家萬人計劃) by the PRC Ministry of Science and Technology (中華人民共和國科學技術部) in May 2018.

Mr. Lyu obtained both his bachelor of science degree in chemistry and his master of science degree in organic chemistry from Nanjing University (南京大學), in July 1998 and June 2005, respectively. Mr. Lyu also obtained his doctorate degree in biomedical engineering from Southeast University (東南大學) in Nanjing in June 2015.

Miss SUN Yuan (孫遠), aged 33, is an executive Director of our Company. Miss Sun was appointed as a Director on December 2, 2015. Miss Sun has served as a director of Jiangsu Hansoh from October 2011 to October 2019. Miss Sun is primarily responsible for providing guidance on research and development strategies, business development, investment strategies and the scientific development of our Group, which includes monitoring and introducing latest industry development and pharmaceutical technologies to the Group and exploring overseas business opportunities. Miss Sun is the daughter of Ms. Zhong.

Miss Sun has approximately eight years of experience in healthcare investment management and industry research. Prior to joining our Group in October 2011, Miss Sun had worked as an analyst at Hony Capital since June 2009.

Miss Sun received her bachelor's degree in biomedical sciences from Cambridge University in June 2007.

Non-Executive Directors

Ms. MA Cuifang (馬翠芳), aged 44, is a non-executive Director of our Company. Ms. Ma was appointed as a Director on March 11, 2016.

Ms. Ma has more than ten years of experience in finance and investment management. Ms. Ma joined Hillhouse Capital Management, Ltd. in June 2005, and is currently serving as its partner.

Ms. Ma obtained her bachelor of science degree from Beijing Normal University (北京師範大學) in July 1998, and her master of management degree from the Chinese Academy of Sciences (中國科學院) in June 2001. Ms. Ma received her Master of Business Administration from the University of Chicago Booth School of Business in March 2012.

Ms. Ma is a Chinese certified public accountant.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Independent Non-Executive Directors

Mr. LIN Guoqiang (林國強), aged 77, is an independent non-executive Director of our Company. Mr. Lin has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Lin is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Lin has more than 50 years of research experience in chemistry. Mr. Lin joined the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in 1968. He was promoted to researcher of such institute in 1990, served as deputy director from 1988 to 1993 and director of such institute from 1993 to 1999. Mr. Lin was a visiting scholar at the Royal Institute of Technology in Sweden in 1980, and also a visiting scientist at both the University of Pittsburgh and R&D Department of SmithKline in the U.S. (美國史克藥業研究開發部) in 1986. Since 1992, Mr. Lin has been the director and executive editor of the publication "Tetrahedron/Tetrahedron Letters" in China and served as deputy chief editor of "China Science: Chemistry" (《中國科學：化學》) from 2008 to 2017. Mr. Lin was also elected as academician of the Chinese Academy of Sciences (中國科學院院士) in 2001.

Mr. Lin has received numerous awards, including State Natural Science Awards and Science Progress Awards. Examples are set out in the table below:

Honor/Award	Awarding Body	Timing of Granting the Award
Second Prize of State Natural Science Award of 2016	State Council	December 2016
Second Prize of State Scientific and Technological Progress Award of 2013	State Council	December 2013
Third Prize of State Scientific and Technology Progress Award of 1995	State Scientific and Technological Commission	December 1995
Second Prize of State Scientific and Technology Progress Award of 1987	State Science & Technology Award Judging Panel	July 1987
Third Prize of State Invention Award of 1987	State Scientific and Technological Commission	January 1987

Mr. Lin obtained his bachelor's degree in organic chemistry from Shanghai University of Science and Technology (上海科學技術大學) in July 1964, and obtained his master's degree in organic chemistry from Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in July 1968.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Independent Non-Executive Directors *(Continued)*

Mr. CHAN Charles Sheung Wai (陳尚偉), aged 66, is an independent non-executive Director of our Company. Mr. Chan has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Chan is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Chan has more than 40 years of experience in corporate finance, financial regulations and risk management. Mr. Chan started his career as an auditor at the Canadian office of Arthur Andersen in 1977 and was promoted to partnership in 1988. He subsequently joined the China & Hong Kong office of Arthur Andersen as an audit partner in 1994. From July 2002 to June 2012, Mr. Chan was a partner of the China & Hong Kong office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of the Hong Kong Stock Exchange from 1998 to 2001 and also as a member of the Election Committee for the first Legislative Council of Hong Kong in 1998. From 1996 to 1999, Mr. Chan was a council member of the Hong Kong Institute of Certified Public Accountants. He also served as a member of the Accounting Standards Committee, Auditing Standards Committee and the chairman of the China Technical Committee of the Hong Kong Institute of Certified Public Accountants.

Mr. Chan has been an independent non-executive director of SRE Group Limited (Hong Kong Stock Exchange Stock Code: 1207) and Maoyan Entertainment (Hong Kong Stock Exchange Stock Code: 1896) since July 2012 and January 2019, respectively, and an independent director of Changyou.com Ltd (NASDAQ Stock Code: CYOU) since September 2013.

In May 1977, Mr. Chan obtained a Bachelor of Commerce degree from the University of Manitoba, in Canada. He is a member of both the Chartered Accountants of Canada and the Hong Kong Institute of Certified Public Accountants.

Ms. YANG Dongtao (楊東濤), aged 62, is an independent non-executive Director of our Company. Ms. Yang has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Ms. Yang is primarily responsible for providing independent opinion and judgment to our Board.

Ms. Yang has over 30 years of experience in the field of education. She was a lecturer of the Management Department of Nanjing University School of Business (南京大學商學院管理學系) from March 1985 to March 1992. She then served as associate professor from March 1992 to March 1999 and as professor from March 1999 to February 2007 of the Management Department of Nanjing University School of Business (南京大學商學院管理學系). Ms. Yang has been a professor of the Human Resources Management Department of Nanjing University School of Business (南京大學商學院人力資源管理系) since February 2007. Since May 2016, she has also been the vice president of the Jiangsu Province Human Resources Society (江蘇省人力資源學會).

Ms. Yang is currently an independent non-executive director of Perfect Group Corp., Ltd. (倍加潔集團股份有限公司) (Shanghai Stock Exchange stock code: 603059) and Novoray Corporation (江蘇聯瑞新材料股份有限公司) (Shanghai Stock Exchange stock code: 688300).

Ms. Yang received her bachelor of engineering from Southeast University (東南大學) (formerly known as Nanjing Institute of Technology (南京工學院)) in Nanjing in July 1982. She obtained both her master's degree in economics and her doctorate degree in corporate management from Nanjing University (南京大學) in February 1992 and December 1998, respectively.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

The members of our senior management team and details of each of their experience are as follows:

Mr. WU Gongzheng (吳公正), aged 49, is a senior vice president of our Group and has been appointed to this position since March 2012. Mr. Wu is primarily responsible for Jiangsu Hansoh's overall financial management.

Mr. Wu has more than 20 years of experience in financial management. Mr. Wu joined our Group in September 1997 as a financial supervisor and was promoted to finance director of Jiangsu Hansoh in February 2003.

Mr. Wu obtained his bachelor's degree in statistical economics from Nanjing University of Finance & Economics (南京財經大學) (formerly known as Nanjing College of Economics (南京經濟學院)) in July 1993. Mr. Wu is currently completing his EMBA program at Nanjing University (南京大學).

Ms. ZHONG Chunhua (鍾春華), aged 45, is a senior vice president of our Group and has been appointed to this position since January 2013. Ms. Zhong Chunhua is primarily responsible for overseeing production and human resources management of our Group.

Ms. Zhong Chunhua has 19 years of managerial experience in pharmaceutical manufacturing quality control and human resources and joined our Group in July 2000. She was appointed as a quality assurance supervisor in February 2002, and was then promoted to quality assurance manager in August 2004. In March 2009, Ms. Zhong Chunhua was appointed as executive deputy general manager of the production division of Jiangsu Hansoh and has been responsible for managing the pharmaceutical production division.

Ms. Zhong Chunhua received her bachelor of pharmaceutical sciences degree from China Pharmaceutical University (中國藥科大學) (formerly known as Nanjing Medical College (南京醫學院)) in Nanjing in July 2000.

Mr. XU Chuanhe (徐傳合), aged 56, is a senior vice president of our Group and has been appointed to this position since March 2009. Mr. Xu is primarily responsible for matters related to sales management of our Group.

Mr. Xu has more than 20 years of experience in pharmaceutical sales management. Mr. Xu joined our Group in August 1997 and was appointed as deputy general manager of the sales division in October 1997.

Mr. Xu obtained his bachelor of science degree from China Pharmaceutical University (中國藥科大學) (formerly known as Nanjing Medical College (南京藥學院)) in Nanjing in July 1985 and his EMBA from Wuhan University (武漢大學) in December 2008.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (Continued)

Mr. BAO Rudi (包如迪), aged 56, is a senior vice president of our Group and has been appointed to this position since October 2016. Mr. Bao joined our Group in September 2012 as deputy general manager of Shanghai Hansen. Mr. Bao is mainly responsible for the management of R&D of innovative drugs and the scientific development of our Group.

Mr. Bao has approximately 24 years of experience in the pharmaceutical manufacturing industry, including 17 years of experience in management of R&D of drugs. Prior to joining our Group, he was a senior researcher at Novartis Pharmaceuticals from October 2002 to December 2006, and a senior director at Curis Inc. from December 2006 to July 2012.

Mr. Bao obtained his bachelor's degree in medicine from Changwei Medical College (昌濰醫學院) (formerly known as Weifang Medical College (濰坊醫學院)) in July 1986 and his master's degree in medicine from Harbin Medical University (哈爾濱醫科大學) in December 1989. He obtained his doctorate degree in medicine from Peking Union Medical College (北京協和醫學院) (formerly known as China Union Medical College (中國協和醫科大學)) in October 1992.

Mr. Hu Min (胡旻), aged 43, is a vice president of our Group. Mr. Hu joined our Group in September 2019 and was appointed as chief financial officer.

Mr. Hu has years of experience in finance, auditing, consulting and capital markets in the pharmaceutical and healthcare industries. Before joining our Group, Mr. Hu served as an audit partner for the pharmaceutical and healthcare industries at Deloitte Touche Tohmatsu China. Mr. Hu holds qualifications of certified public accountant of China and the United States.

Mr. Hu obtained his bachelor of economics from Xiamen University in July 1999.

JOINT COMPANY SECRETARIES

Ms. ZHONG Shengli (鍾勝利), aged 52, has served as a joint company secretary and a senior vice president of our Group since August 2018 and March 2012, respectively.

Ms. Zhong Shengli joined our Group in July 2010 as investment director and was responsible for investment management.

Before joining our Group, she had more than ten years of work experience in financial institutions. Ms. Zhong Shengli joined Ping An Bank in November 1998 and she was serving as a senior manager of Ping An Bank when she left in July 2010.

Ms. Zhong Shengli obtained her bachelor of arts degree from Beijing Foreign Studies University (北京外國語大學) (formerly known as Beijing Foreign Studies College (北京外國語學院)) in July 1991.

Ms. LI Yan Wing Rita (李昕穎) was appointed as a joint company secretary of our Company with effect from the Listing Date. Ms. Li is an executive director of Corporate Services of Tricor Services Limited and has over 20 years of experience in the corporate secretarial field, providing professional corporate secretarial services to listed companies as well as multi-national, private and offshore companies. She is currently the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Li is a chartered secretary, a chartered governance professional and a fellow of both of The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators ("**ICSA**") in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS. Ms. Li received her bachelor of arts degree from City University of Hong Kong in November 1994.

Independent Auditor's Report

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Independent auditor's report
To the shareholders of Hansoh Pharmaceutical Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hansoh Pharmaceutical Group Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 46 to 109, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables	
We identified expected credit losses on trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated statement of financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("**ECL**") of the Group's trade receivables at the end of the reporting period. As at 31 December 2019, the Group's net trade receivables amounted to approximately RMB1,550,677,000, which represented approximately 8% of total assets of the Group and out of these trade receivables, approximately RMB87,704,000 were past due. According to Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("**HKFRS 9**"), a forward-looking ECL approach was applied by the Group. The measurement of ECL involves significant judgement and assumptions used in the ECL approach as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money. The Group's disclosures about trade receivables are included in Note 2.4 Summary of significant accounting policies, Note 3 Significant accounting judgments and estimates, Note 16 Trade and bills receivables and Note 31 Financial instruments by category to the consolidated financial statements, which specifically explain the accounting policies, management's judgements and estimates, and the overdue receivables and the related provision.	Our procedures in relation to management's assessment on ECLs of trade receivables included: Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating their effectiveness; Assessing the appropriateness of the Group's policy of provision for ECLs, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information used to determine ECLs; Testing, on a sample basis, the ageing profile of the trade receivables as at 31 December 2019 by comparing individual items in the ageing profile with the relevant sales agreement, sales invoices and other supporting documents; and Inquiring of management for the status of each of the material trade receivable past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records and other correspondence with the customers. We also read and assessed the relevant disclosures made in the consolidated financial statements, including disclosures of the basis for this estimation.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

The engagement partner on the audit resulting in this independent auditor's report is Philip Leung.

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2020

Consolidated Statement of Profit or Loss

Year ended December 31, 2019

	Notes	**2019**	2018
		RMB'000	*RMB'000*
REVENUE	5	**8,682,746**	7,722,278
Cost of sales		**(729,540)**	(603,100)
Gross profit		**7,953,206**	7,119,178
Other income	5	**221,219**	77,953
Selling and distribution expenses		**(3,266,380)**	(3,208,680)
Administrative expenses		**(777,692)**	(790,158)
Research and development costs		**(1,120,681)**	(881,288)
Other expenses, net	5	**(8,747)**	(7,680)
PROFIT BEFORE TAX	6	**3,000,925**	2,309,325
Income tax expense	9	**(444,183)**	(406,277)
PROFIT FOR THE YEAR		**2,556,742**	1,903,048
Attributable to:			
Owners of the parent		**2,556,742**	1,903,048
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	11	**0.47**	0.38

Consolidated Statement of Comprehensive Income

Year ended December 31, 2019

	2019 *RMB'000*	2018 *RMB'000*
PROFIT FOR THE YEAR	**2,556,742**	1,903,048
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**185,286**	46,160
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**185,286**	46,160
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**185,286**	46,160
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,742,028**	1,949,208
Attributable to:		
Owners of the parent	**2,742,028**	1,949,208

Consolidated Statement of Financial Position

December 31, 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,740,832**	1,381,825
Right-of-use assets	13(b)	**187,100**	–
Prepaid land lease payments	13(a)	**–**	138,847
Intangible assets	14	**4,568**	10,475
Prepayments for purchase of property, plant and equipment		**194,706**	199,039
Total non-current assets		**2,127,206**	1,730,186
CURRENT ASSETS			
Inventories	15	**414,348**	479,664
Trade and bills receivables	16	**2,245,959**	2,645,207
Prepayments, other receivables and other assets	13(a)/17	**193,772**	66,252
Financial assets at fair value through profit or loss	18	**2,772,040**	2,016,439
Other financial assets	19	**3,583,457**	511,792
Cash and bank balances	20	**8,238,422**	964,831
Total current assets		**17,447,998**	6,684,185
CURRENT LIABILITIES			
Trade and bills payables	21	**192,850**	158,810
Other payables and accruals	22	**1,762,676**	1,460,221
Contract liabilities	23	**40,469**	36,311
Lease liabilities	13(c)	**3,653**	–
Tax payable		**40,684**	48,443
Dividends payable	24	**4,200,000**	2,800,000
Total current liabilities		**6,240,332**	4,503,785
NET CURRENT ASSETS		**11,207,666**	2,180,400
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,334,872**	3,910,586
NON-CURRENT LIABILITIES			
Dividends payable	24	**–**	1,200,000
Lease liabilities	13(c)	**5,783**	–
Deferred tax liabilities	25	**284,767**	242,688
Total non-current liabilities		**290,550**	1,442,688
NET ASSETS		**13,044,322**	2,467,898

Consolidated Statement of Financial Position

December 31, 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**51**	1
Reserves	27	**13,044,271**	2,467,897
		13,044,322	2,467,898
Non-controlling interests		**–**	–
Total equity		**13,044,322**	2,467,898

Consolidated Statement of Changes in Equity

Year ended December 31, 2019

		Attributable to owners of the parent								
		Share capital RMB'000	Share premium* RMB'000	Merger reserve/ other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Statutory surplus reserves* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018		1	1,302,448	(57,100)	24,266	205,000	3,044,075	4,518,690	–	4,518,690
Profit for the year		–	–	–	–	–	1,903,048	1,903,048	–	1,903,048
Exchange differences on translation of foreign operations		–	–	–	46,160	–	–	46,160	–	46,160
Total comprehensive income for the year		–	–	–	46,160	–	1,903,048	1,949,208	–	1,949,208
Dividends declared		–	–	–	–	–	(4,000,000)	(4,000,000)	–	(4,000,000)
At 31 December 2018		1	1,302,448	(57,100)	70,426	205,000	947,123	2,467,898	–	2,467,898

		Attributable to owners of the parent								
	Notes	Share capital RMB'000	Share premium* RMB'000 Note 27(a)	Merger reserve/ other reserve* RMB'000 Note 27(b)	Exchange fluctuation reserve* RMB'000 Note 27(c)	Statutory surplus reserves* RMB'000 Note 27(d)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019		**1**	**1,302,448**	**(57,100)**	**70,426**	**205,000**	**947,123**	**2,467,898**	**–**	**2,467,898**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**2,556,742**	**2,556,742**	**–**	**2,556,742**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**185,286**	**–**	**–**	**185,286**	**–**	**185,286**
Total comprehensive income for the year		**–**	**–**	**–**	**185,286**	**–**	**2,556,742**	**2,742,028**	**–**	**2,742,028**
Issue of shares for the Initial Public Offering ("**IPO**")	26(a)	**–**	**1,682,278**	**–**	**–**	**–**	**–**	**1,682,278**	**–**	**1,682,278**
Capitalisation Issue	26(b)	**44**	**(44)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issue of shares in connection with the IPO	26(c)/ 26(d)	**6**	**7,960,847**	**–**	**–**	**–**	**–**	**7,960,853**	**–**	**7,960,853**
Share issue expenses		**–**	**(108,735)**	**–**	**–**	**–**	**–**	**(108,735)**	**–**	**(108,735)**
Dividends declared	10	**–**	**–**	**–**	**–**	**–**	**(1,700,000)**	**(1,700,000)**	**–**	**(1,700,000)**
Transfer from retained profits		**–**	**–**	**–**	**–**	**408,050**	**(408,050)**	**–**	**–**	**–**
At 31 December 2019		**51**	**10,836,794**	**(57,100)**	**255,712**	**613,050**	**1,395,815**	**13,044,322**	**–**	**13,044,322**

* These reserve accounts comprise the consolidated reserves of RMB13,044,271,000 (2018: RMB2,467,897,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2019

	Notes	2019 *RMB'000*	2018 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**3,000,925**	2,309,325
Adjustments for:			
Impairment of trade receivables, net	5	**(1,003)**	2,567
Impairment of inventories, net	5	**7,989**	–
Depreciation of items of property, plant and equipment	6	**183,675**	148,624
Depreciation of right-of-use assets	6	**5,886**	–
Amortisation of prepaid land lease payments	6	**–**	2,831
Amortisation of intangible assets	6	**11,993**	7,641
Loss on disposal of items of property, plant and equipment	5	**1,291**	727
Fair value gains of financial assets at fair value through profit or loss	5	**(23,113)**	(31,764)
Investment income	5	**(25,871)**	(17,666)
Interest income from deposits with initial terms of over three months when acquired	5	**(123,261)**	–
Interest expense on lease liabilities	5	**123**	–
Dividend income from equity investments at fair value through profit or loss	5	**–**	(8)
		3,038,634	2,422,277
Decrease/(increase) in trade and bills receivables		**400,251**	(455,256)
Increase in prepayments, other receivables and other assets		**(6,297)**	(3,970)
Decrease/(increase) in inventories		**57,327**	(33,115)
Increase in trade and bills payables		**34,040**	60,016
Increase in other payables and accruals		**342,973**	393,668
Increase/(decrease) in contract liabilities		**4,158**	(5,201)
Cash generated from operations		**3,871,086**	2,378,419
Income tax paid		**(541,397)**	(306,192)
Net cash flows from operating activities		**3,329,689**	2,072,227

Consolidated Statement of Cash Flows

Year ended December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**11,046**	8,252
Purchases of items of property, plant and equipment		**(592,476)**	(381,378)
Purchases of intangible assets		**(4,814)**	(1,295)
Payments for land leases		**–**	(24,543)
Increase in bank deposits with initial terms of over three months when acquired		**(2,856,546)**	–
(Increase)/decrease of financial products included in other financial assets		**(3,040,872)**	368,909
Increase of financial products included in financial assets at fair value through profit or loss		**(761,000)**	(1,407,000)
Interest income received from deposits with initial terms of over three months when acquired		**107,527**	–
Investment income received from financial products included in other financial assets		**33,024**	18,257
Investment income received from financial products included in financial assets at fair value through profit or loss		**28,512**	29,375
Proceeds from sale of listed equity investments		**–**	671
Dividends received from listed equity investments		**–**	8
Loans to a related party		**–**	(367,000)
Repayment of loans from a related party		**–**	367,000
Net cash flows used in investing activities		**(7,075,599)**	(1,388,744)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares prior to the IPO		**1,682,278**	–
Net proceeds from issue of shares in connection with the IPO		**7,852,118**	–
Dividends paid		**(1,500,000)**	–
Principal portion of lease payments		**(41,668)**	–
Net cash flows from financing activities	28	**7,992,728**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,246,818**	683,483
Cash and cash equivalents at beginning of year		**964,831**	266,444
Effect of foreign exchange rate changes, net		**133,210**	14,904
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,344,859**	964,831
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, unrestricted	20	**3,411,166**	653,183
Non-pledged time deposits with initial terms of less than three months when acquired	20	**1,933,693**	311,648
Cash and cash equivalents as stated in the consolidated statement of cash flows		**5,344,859**	964,831

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 June 2019.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") were principally engaged in the research and development, production and sale of a series of pharmaceutical products in the People's Republic of China (the "**PRC**").

As at the date of this report, the Company has direct and indirect interest in its subsidiaries, all of which are private limited liability companies (or if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong).

Particulars of the principal subsidiaries now comprising the Group are set out below:

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Hansoh Pharmaceutical Group Co., Ltd. ("**Jiangsu Hansoh**")*	PRC/ Mainland China	RMB 1,000,000,000	July 1995	–	100%	Pharmaceutical
Jiangsu Hengte Pharmaceutical Trading Co., Ltd. ("**Jiangsu Hengte**")*	PRC/ Mainland China	RMB 10,000,000	July 2006	–	100%	Pharmaceutical
Shanghai Hansen Technology Co., Ltd. ("**Shanghai Hansen**")*	PRC/ Mainland China	RMB 260,000,000	October 2011	–	100%	Pharmaceutical
Hansoh Pharma International Limited ("**Hansoh International**")	Hong Kong	HKD100	December 2015	–	100%	Investment holding and trading
Hansoh (Shanghai) Health Technology Co., Ltd. ("**Hansoh Health**")	PRC/ Mainland China	USD 90,000,000	September 2019	–	100%	Investment holding and trading

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended in 31 December 2019 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the period ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

New definition of a lease

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land use right, property and vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and present separately in the statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Relying on the entity's assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) (continued)

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

Impacts on transition (Continued)

Accordingly, the Group recognised right-of-use assets of RMB142,005,000 as at 1 January 2019. Prepaid rental of RMB142,005,000 was derecognised, resulting in a decrease in prepaid land lease payments and a decrease in prepayments, other receivables and other assets of RMB138,847,000 and RMB3,158,000, respectively, as at 1 January 2019.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	624
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	612
Less: Commitments relating to leases of low-value assets	(612)
Lease liabilities as at 1 January 2019	–

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSS

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

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

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

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

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

Save as disclosed above, the directors of the Company anticipate that application of the new and revised HKFRSs and interpretations will have no material impact on the Group's consolidated financial statements in the future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Leasehold improvement	3 years
Machinery equipment	10 years
Computer and office equipment	3 – 5 years
Motor vehicles	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents an asset under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Software	3 years

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land use right	50 years
Property	3 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in the section "Impairment of non-financial assets".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented in a separate line on the consolidated statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for lease of low-value assets to leases of office equipment that are considered to be low value.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to of ownership of an underlying assets to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets measured at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets measured at fair value through profit or loss

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

General approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 1 year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Overdue by	Provision rate
Within 90 days	0%
90 days to 1 year	20%
Over 1 year	100%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables.

Subsequent measurement

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

Financial liabilities measured at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal. If the cost of inventories is higher than the net realisable value, the provision of inventories is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Sale of pharmaceutical products

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

Some contracts for the sale of pharmaceutical products provide customers with rights of return. The rights of return give rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Other income

Technology transfer income is recognised when services relating to the contract have been performed;

Rental income is recognised on a time proportion basis over the lease terms;

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Dividend distribution to the shareholders is recognised as a liability in the period in which the dividends are approved by the shareholders or directors, where appropriate.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year or period.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year or period are translated into RMB at the weighted average exchange rates for the year or period.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2019 was RMB8,451,000 (2018: RMB23,635,000). The amount of tax losses that are not recognised as deferred tax assets as at 31 December 2019 was RMB28,518,000 (2018: RMB29,937,000). Further details are contained in note 25 to the financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result, when certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the distribution sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the repair and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is recognised if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. Determining the amounts of development costs to be capitalised requires the use of judgements and estimation.

4. OPERATING SEGMENT INFORMATION

Information about geographical areas

Since over 90% of the Group's revenue and operating profit were generated from the sale of pharmaceutical products in Mainland China and most of the Group's identifiable operating assets and liabilities were located in Mainland China, no geographical segment information in accordance with HKFRS 8 *Operating Segments* is presented.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the reporting period.

5. REVENUE, OTHER INCOME AND OTHER EXPENSES, NET

An analysis of revenue, other income and other expenses, net is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sales of goods – at a point in time	**8,682,746**	7,722,278
Other income		
Investment income	**25,871**	17,666
Government grants	**33,520**	33,489
Rendering research and development services	**7,266**	21,966
Bank interest income	**153,582**	2,853
Dividend income from equity investments at fair value through profit or loss	**–**	8
Others	**980**	1,971
	221,219	77,953
Other expenses, net		
Loss on disposal of items of property, plant and equipment	**(1,291)**	(727)
Fair value gains of financial assets at fair value through profit or loss	**23,113**	31,764
Donations	**(38,661)**	(39,382)
Foreign exchange gains, net	**9,947**	2,382
Impairment of trade receivables, net	**1,003**	(2,567)
Impairment of inventories, net	**(7,989)**	–
Interest expense on lease liabilities	**(123)**	–
Others	**5,254**	850
	(8,747)	(7,680)

Unsatisfied performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 RMB'000	2018 RMB'000
Unsatisfied performance obligations	**54,457**	23,871
Amounts expected to be recognised as other income:		
Within one year	**15,684**	13,080
After one year	**38,773**	10,791
	54,457	23,871

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Cost of inventories sold		**444,566**	386,594
Depreciation of property, plant and equipment		**183,675**	148,624
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)		**5,886**	2,831
Amortisation of intangible assets		**11,993**	7,641
Impairment of trade receivables, net	16	**(1,003)**	2,567
Impairment of inventories, net		**7,989**	–
Operating lease expenses		**7,881**	3,716
Auditors' remuneration		**5,660**	6,625
Loss on disposal of items of property, plant and equipment	5	**1,291**	727
Dividend income from equity investments at fair value through profit or loss	5	**–**	(8)
Investment income	5	**(25,871)**	(17,666)
Fair value gains of financial assets at fair value through profit or loss	5	**(23,113)**	(31,764)
Bank interest income	5	**(153,582)**	(2,853)
Foreign exchange gains, net	5	**(9,947)**	(2,382)
Employee benefit expense (including directors' remuneration as set out in note 7):			
Wages and salaries		**1,239,317**	936,533
Social welfare and other benefits		**326,634**	257,439
		1,565,951	1,193,972

7. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2019	2018
	RMB'000	*RMB'000*
Fees	**–**	–
Other emoluments:		
Salaries and bonuses	**39,324**	36,088
Social welfare and other benefits	**258**	237
	39,582	36,325
	39,582	36,325

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Note	**2019**	2018
		RMB'000	*RMB'000*
Mr. Lin Guoqiang	(ii)	**30**	–
Mr. Chan Charles Sheung Wai	(ii)	**180**	–
Ms. Yang Dongtao	(ii)	**145**	–
		355	–

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

7. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

	Notes	Fees *RMB'000*	Salaries and bonuses *RMB'000*	Social welfare and other benefits *RMB'000*	Total remuneration *RMB'000*
2019					
Executive directors:					
Ms. Zhong Huijuan	(i)	**–**	**23,460**	**86**	**23,546**
Miss Sun Yuan		**–**	**12,758**	**86**	**12,844**
Mr. Lyu Aifeng		**–**	**3,106**	**86**	**3,192**
		–	**39,324**	**258**	**39,582**
Non-executive director:					
Ms. Ma Cuifang		**–**	**–**	**–**	**–**
		–	**39,324**	**258**	**39,582**
2018					
Executive directors:					
Ms. Zhong Huijuan	(i)	–	25,585	79	25,664
Miss Sun Yuan		–	7,168	79	7,247
Mr. Lyu Aifeng		–	3,335	79	3,414
		–	36,088	237	36,325
Non-executive director:					
Ms. Ma Cuifang		–	–	–	–
		–	36,088	237	36,325

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes:

(i) Ms. Zhong Huijuan is also the chief executive officer of the Company.

(ii) Mr. Lin Guoqiang, Mr. Chan Charles Sheung Wai and Ms. Yang Dongtao were appointed as independent non-executive directors with effect from May 31, 2019.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2018: three directors), details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2018: two) highest paid employees who are not directors of the Company are as follows:

	2019	2018
	RMB'000	*RMB'000*
Salaries and bonuses	**3,446**	5,048
Social welfare and other benefits	**172**	158
	3,618	5,206

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HKD2,000,001 to HKD2,500,000	**2**	1
HKD4,000,001 to HKD4,500,000	**–**	1
	2	2

9. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or British Virgin Islands.

The subsidiary incorporated in Hong Kong and subsidiaries registered as a Hong Kong tax resident are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the reporting period.

The provision for PRC corporate income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

In 2014, Jiangsu Hansoh was accredited as a "High and New Technology Enterprise" ("**HNTE**") and was entitled to a preferential income tax rate of 15% for a period of three years from 2014 to 2016. Jiangsu Hansoh subsequently renewed its HNTE qualification in 2017, and was entitled to the preferential tax rate of 15% from 2017 to 2019.

In 2017, Shanghai Hansen was initially accredited as a HNTE, and thus entitled to a preferential income tax rate of 15% from 2017 to 2019.

9. INCOME TAX *(Continued)*

The income tax expense of the Group for the year is analysed as follows:

	2019 **RMB'000**	2018 RMB'000
Current income tax	**402,104**	291,273
Deferred income tax (note 25)	**42,079**	115,004
Tax charge for the year	**444,183**	406,277

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019 **RMB'000**	2018 RMB'000
Profit before tax	**3,000,925**	2,309,325
Tax at the statutory tax rate (25%)	**750,231**	577,331
Preferential income tax rate applicable to certain subsidiaries	**(232,892)**	(194,609)
Additional deductible allowance for qualified research and development costs	**(194,299)**	(91,091)
Adjustments in respect of current income tax of previous years	**(14,132)**	5,201
Income not subject to tax	**(2,674)**	(255)
Expenses not deductible for tax	**15,874**	3,669
Accrual for withholding tax	**122,429**	101,009
Tax losses utilised from previous years	**(5,000)**	(83)
Tax losses not recognised	**4,646**	5,105
Tax charge at the Group's effective rate	**444,183**	406,277

10. DIVIDENDS

	2019 **RMB'000**	2018 RMB'000
Distribution to the then shareholders	**1,700,000**	4,000,000

Notes:

Pursuant to the Company's board resolution dated 31 July 2018, the Company declared dividends of RMB4,000,000,000 to the then shareholders.

Pursuant to the Company's board resolution and the resolution of the shareholders of the Company dated 27 May 2019, the Company declared dividends of RMB1,700,000,000 to the then shareholders.

Save as disclosed above, no other dividend was proposed for the year ended 31 December 2019.

11. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue for the years 2019 and 2018.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share and diluted earnings per share has been retrospectively adjusted for the effect of capitalisation issue as disclosed in note 26.

The Group had no potentially dilutive shares in issue during the years ended 31 December 2019 and 2018.

The calculations of basic and diluted earnings per share are based on:

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**2,556,742**	1,903,048

	Adjusted number of shares	
	2019	2018
Shares		
Adjusted weighted average number of shares in issue during the year used in the basic and diluted earnings per share calculation	**5,477,489,291**	5,000,000,000

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Leasehold improvement *RMB'000*	Machinery equipment *RMB'000*	Computer and office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2018							
At 1 January 2018							
Cost	886,557	13,171	660,567	77,523	59,459	129,027	1,826,304
Accumulated depreciation	(210,585)	(9,229)	(336,710)	(54,547)	(43,743)	–	(654,814)
Net carrying amount	675,972	3,942	323,857	22,976	15,716	129,027	1,171,490
At 1 January 2018, net of accumulated depreciation	675,972	3,942	323,857	22,976	15,716	129,027	1,171,490
Additions	8,682	–	132,753	12,869	4,418	224,052	382,774
Disposals	(6,800)	–	(251)	(9)	(812)	(1,106)	(8,978)
Transfer	87,305	–	169,878	6,015	–	(270,841)	(7,643)
Depreciation provided during the year	(47,423)	(2,535)	(85,594)	(12,516)	(7,750)	–	(155,818)
At 31 December 2018, net of accumulated depreciation	717,736	1,407	540,643	29,335	11,572	81,132	1,381,825
At 31 December 2018:							
Cost	968,728	13,171	937,152	95,290	59,699	81,132	2,155,172
Accumulated depreciation	(250,992)	(11,764)	(396,509)	(65,955)	(48,127)	–	(773,347)
Net carrying amount	717,736	1,407	540,643	29,335	11,572	81,132	1,381,825
31 December 2019							
At 1 January 2019							
Cost	**968,728**	**13,171**	**937,152**	**95,290**	**59,699**	**81,132**	**2,155,172**
Accumulated depreciation	**(250,992)**	**(11,764)**	**(396,509)**	**(65,955)**	**(48,127)**	**–**	**(773,347)**
Net carrying amount	**717,736**	**1,407**	**540,643**	**29,335**	**11,572**	**81,132**	**1,381,825**
At 1 January 2019, net of accumulated depreciation	**717,736**	**1,407**	**540,643**	**29,335**	**11,572**	**81,132**	**1,381,825**
Additions	**201,296**	**–**	**79,938**	**12,516**	**10,111**	**253,183**	**557,044**
Disposals	**(329)**	**–**	**(1,986)**	**(1,195)**	**(52)**	**(8,775)**	**(12,337)**
Transfer	**31,832**	**–**	**55,464**	**1,264**	**131**	**(90,716)**	**(2,025)**
Depreciation provided during the year	**(57,166)**	**(1,361)**	**(98,674)**	**(19,777)**	**(6,697)**	**–**	**(183,675)**
At 31 December 2019, net of accumulated depreciation	**893,369**	**46**	**575,385**	**22,143**	**15,065**	**234,824**	**1,740,832**
At 31 December 2019:							
Cost	**1,201,094**	**7,487**	**1,055,612**	**99,977**	**66,513**	**234,824**	**2,665,507**
Accumulated depreciation	**(307,725)**	**(7,441)**	**(480,227)**	**(77,834)**	**(51,448)**	**–**	**(924,675)**
Net carrying amount	**893,369**	**46**	**575,385**	**22,143**	**15,065**	**234,824**	**1,740,832**

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

The Group was applying for certificates of ownership for certain properties with the net book value of RMB140,363,000 as at 31 December 2019. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use right, property, equipment and vehicles. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms of 3 years. Equipment and vehicles generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	120,293
Additions	24,543
Recognised in profit or loss during the year	(2,831)
Carrying amount at 31 December 2018	142,005
Analysed into:	
Current portion	3,158
Non-current portion	138,847

(b) Right-of-use assets

	Land use right ***RMB'000***	**Property** ***RMB'000***	**Total** ***RMB'000***
As at 1 January 2019	**142,005**	**–**	**142,005**
Additions	**39,591**	**11,390**	**50,981**
Depreciation charge	**(3,488)**	**(2,398)**	**(5,886)**
As at 31 December 2019	**178,108**	**8,992**	**187,100**

13. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(c) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows

	2019 Lease liabilities ***RMB'000***
Carrying amount at 1 January 2019	–
New leases	50,981
Accretion of interest recognised during the year	123
Payments	(41,668)
Carrying amount at 31 December 2019	9,436
Analysed into:	
Current portion	3,653
Non-current portion	5,783

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 ***RMB'000***
Interest on lease liabilities	123
Depreciation charge of right-of-use assets	5,886
Total amount recognised in profit or loss	6,009

14. INTANGIBLE ASSETS

	Software *RMB'000*
31 December 2019	
Cost at 1 January 2019, net of accumulated amortisation	**10,475**
Additions	**4,061**
Transfer from construction in process	**2,025**
Amortisation provided during the year	**(11,993)**
At 31 December 2019	**4,568**
At 31 December 2019:	
Cost	**36,298**
Accumulated amortisation	**(31,730)**
Net carrying amount	**4,568**
31 December 2018	
At 1 January 2018:	
Cost	21,273
Accumulated amortisation	(12,095)
Net carrying amount	9,178
Cost at 1 January 2018, net of accumulated amortisation	9,178
Additions	1,295
Transfer from construction in process	7,643
Amortisation provided during the year	(7,641)
At 31 December 2018	10,475
At 31 December 2018 and at 1 January 2019:	
Cost	30,212
Accumulated amortisation	(19,737)
Net carrying amount	10,475

15. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**89,359**	98,247
Work in progress	**221,313**	229,858
Finished goods	**103,676**	151,559
	414,348	479,664

16. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**1,551,688**	1,610,677
Impairment	**(1,011)**	(5,870)
	1,550,677	1,604,807
Bills receivable	**695,282**	1,040,400
	2,245,959	2,645,207

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally from 60 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 90 days	**1,517,015**	1,560,095
91 days to 180 days	**33,619**	41,346
Over 180 days	**43**	3,366
	1,550,677	1,604,807

16. TRADE AND BILLS RECEIVABLES *(Continued)*

An ageing analysis of bills receivable as at the end of the reporting period, based on the billing date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 90 days	**405,607**	608,017
91 days to 180 days	**289,675**	431,883
Over 180 days	**–**	500
	695,282	1,040,400

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivables and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing. The movements in the loss allowance for impairment of trade receivables are as follows:

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**5,870**	12,598
Impairment losses, net (note 6)	**(1,003)**	2,567
Amount written-off as uncollectible	**(3,856)**	(9,295)
At end of year	**1,011**	5,870

16. TRADE AND BILLS RECEIVABLES *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Not overdue	Overdue by: Within 90 days	Overdue by: 90 days to 1 year	Overdue by: Over 1 year	Total
At 31 December 2019					
Expected credit loss rate	**0%**	**0%**	**20%**	**100%**	**0%**
Gross carrying amount (RMB'000)	**1,463,984**	**86,650**	**54**	**1,000**	**1,551,688**
Expected credit losses (RMB'000)	**–**	**–**	**11**	**1,000**	**1,011**
At 31 December 2018					
Expected credit loss rate	0%	0%	20%	100%	0%
Gross carrying amount (RMB'000)	1,578,834	18,043	9,913	3,887	1,610,677
Expected credit losses (RMB'000)	–	–	1,983	3,887	5,870

The credit loss rate remained the same during the reporting period as the business and customer risk portfolio of the Group remained stable and there were no significant fluctuations in the historical credit loss incurred. In addition, there is no significant change with regards to economic indicators based on an assessment of forward-looking information.

At 31 December 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to settle the dividends payable, trade payables and other payables with a carrying amount of RMB74,334,000 (2018: RMB92,139,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated dividends payable, trade payables and other payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the reporting period and cumulatively.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

		2019 RMB'000	2018 RMB'000
Prepaid income tax		**131,534**	–
Prepayments		**24,185**	28,308
Deposits		**4,740**	3,543
Prepaid land lease payments – current portion	13(a)	**–**	3,158
Prepaid expenses		**598**	2,771
Other receivables		**32,715**	28,472
		193,772	66,252

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Investments in financial products	**2,772,040**	2,016,439

The above investments represent investments in certain financial products issued by commercial banks in the PRC with expected return rates ranging from 1.35% to 3.70% per annum. The returns on all of these financial products are not guaranteed. The fair values of the investments approximate to their costs plus expected return. None of these investments are either past due or impaired.

19. OTHER FINANCIAL ASSETS

	2019 RMB'000	2018 RMB'000
Investments in financial products	**3,583,457**	511,792

The above investments represent investments in certain financial products issued by commercial banks. These financial products had terms of less than one year and had guaranteed annual return rates ranging from 2.00% to 3.20%. None of these investments are either past due or impaired.

20. CASH AND BANK BALANCES

	2019 *RMB'000*	2018 *RMB'000*
Cash and bank balances, unrestricted	**3,411,166**	653,183
Bank deposits with initial terms of less than three months when acquired	**1,933,693**	311,648
Bank deposits with initial terms of over three months when acquired (note (a))	**2,893,563**	–
Cash and bank balances	**8,238,422**	964,831
Denominated in:		
RMB	**1,486,429**	407,990
USD	**2,599,918**	556,398
HKD	**4,152,075**	378
Others	**–**	65
	8,238,422	964,831

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Note:

(a) The above investments represent time deposits with initial terms of over three months when acquired (including three months) issued by commercial banks with annual return rates ranging from 1.50% to 3.15%. None of these investments are either past due or impaired. None of these deposits are pledged.

21. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**88,432**	95,291
Bills payable	**104,418**	63,519
	192,850	158,810

An ageing analysis of the trade and bills payable as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 90 days	**139,094**	121,530
91 days to 180 days	**52,965**	36,386
181 days to 1 year	**151**	321
Over 1 year	**640**	573
	192,850	158,810

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

22. OTHER PAYABLES AND ACCRUALS

	2019	2018
	RMB'000	*RMB'000*
Accrued expenses	**1,009,471**	586,816
Staff payroll, welfare and bonus payables	**385,345**	366,306
Payables for purchase of items of property, plant and equipment	**73,059**	75,329
Other tax payables	**63,875**	74,630
Other payables	**230,926**	357,140
	1,762,676	1,460,221

23. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Amounts received in advance of delivery of products and services	**40,469**	36,311

Set out below is the amount of revenue and other income recognised from:

	2019 RMB'000	2018 RMB'000
Amounts included in contract liabilities at the beginning of the year	**6,840**	26,358

24. DIVIDENDS PAYABLE

The amounts set out in the consolidated statement of financial position of RMB4,200 million as at 31 December 2019 represented the outstanding balance of dividends of RMB2,500 million declared by the Company to the then shareholders at 31 July 2018 and the dividends of RMB1,700 million declared by the Company to the then shareholders at 27 May 2019.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the reporting period are as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits RMB'000	Decelerated depreciation/ amortisation for tax purposes RMB'000	Unrealised profit from intercompany transactions RMB'000	Accrued expenses RMB'000	Provision of impairment for trade receivables and inventories RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	**23,635**	**7,301**	**40**	**25,387**	**1,124**	**1,148**	**58,635**
Deferred tax recognised in the consolidated statement of profit or loss during the year	**(15,184)**	**(3,482)**	**–**	**22,073**	**228**	**(1,148)**	**2,487**
At 31 December 2019	**8,451**	**3,819**	**40**	**47,460**	**1,352**	**–**	**61,122**
At 1 January 2018	7,393	15,189	1,330	14,559	2,571	3,244	44,286
Deferred tax recognised in the consolidated statement of profit or loss during the year	16,242	(7,888)	(1,290)	10,828	(1,447)	(2,096)	14,349
At 31 December 2018	23,635	7,301	40	25,387	1,124	1,148	58,635

25. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Accelerated depreciation for tax purposes *RMB'000*	Accrual for withholding tax *RMB'000*	Total *RMB'000*
At 1 January 2019	**(34,056)**	**(267,267)**	**(301,323)**
Deferred tax recognised in the consolidated statement of profit or loss during the year	**(5,405)**	**(39,161)**	**(44,566)**
At 31 December 2019	**(39,461)**	**(306,428)**	**(345,889)**
At 1 January 2018	(5,712)	(166,258)	(171,970)
Deferred tax recognised in the consolidated statement of profit or loss during the year	(28,344)	(101,009)	(129,353)
At 31 December 2018	(34,056)	(267,267)	(301,323)

The Group has tax losses arising in Hong Kong of RMB15,494,000 (2018: RMB9,517,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB13,024,000 (2018: RMB20,420,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in certain subsidiaries that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign invested enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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

	2019 ***RMB'000***	2018 *RMB'000*
Net deferred tax liabilities recognised in the consolidated statement of financial position	**284,767**	242,688

26. SHARE CAPITAL

	2019 RMB	2018 RMB
Issued and fully paid: 5,788,611,200 shares of HKD0.00001 each (31 December 2018: 10,000 shares of USD0.01 each)	**50,951**	652

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB
At 1 January 2019	**10,000**	**652**
Issue of shares of USD0.01 each (note (a))	**309.2784**	**21**
Capitalisation issue (note (b)):		
10,309.2784 shares of USD0.01 each repurchased and cancelled	**(10,309.2784)**	**(673)**
5,154,639,200 shares of HKD0.00001 each allotted and issued	**5,154,639,200**	**45,368**
Initial Public Offering – issue of shares of HKD0.00001 each (note (c))	**551,280,000**	**4,854**
The full exercise of the over-allotment option – issue of shares of HKD0.00001 each (note (d))	**82,692,000**	**729**
At 31 December 2019	**5,788,611,200**	**50,951**

Notes:

(a) On 12 February 2019, the Company allotted and issued 309.2784 shares of a par value of USD0.01 to Catalunya Heritage Limited for a total cash consideration of approximately USD248,582,000 (RMB1,682,278,000).

(b) On 14 June 2019, the authorised share capital was increased from USD10,000 divided into 1,000,000 shares of a par value of USD0.01 each to the aggregate of USD10,000 and HKD200,000 divided into (i) 1,000,000 shares of a par value of USD0.01 each and (ii) 20,000,000,000 shares of a par value of HKD0.00001 each by the creation of 20,000,000,000 shares of a par value of HKD0.00001 each.

103,092,784 shares of a par value of HKD0.00001 each were allotted and issued to the then existing shareholders in proportion to their respective shareholdings in the Company and credited as fully paid. 10,309.2784 shares of a par value of USD0.01 each of the Company were repurchased and cancelled and the authorised share capital was reduced by cancellation of the 1,000,000 authorised but unissued shares of a par value of USD0.01 each, following which, the authorised share capital of the Company was HKD200,000 divided into 20,000,000,000 shares of a par value of HKD0.00001 each.

5,051,546,416 shares of a par value of HKD0.00001 each were allotted and issued to the then existing shareholders in proportion to their respective shareholdings in the Company and credited as fully paid at par value, by way of capitalisation of the sum of HKD50,515.46 standing to the credit of the share premium account of the Company.

26. SHARE CAPITAL *(Continued)*

(c) In connection with the Company's Global Offering, 551,280,000 ordinary shares of a par value of HKD0.00001 each were issued at a price of HKD14.26 per share for a total cash consideration, before deducting the underwriting fees and commissions and other estimated listing expenses, of approximately HKD7,861,253,000 (approximately RMB6,921,304,000). Dealings in the shares of the Company on the Stock Exchange commenced on 14 June 2019.

(d) The Company issued and allotted 82,692,000 shares at a price of HKD14.26 per share on 10 July 2019 pursuant to the full exercise of the over-allotment option. The gross proceeds received by the Company were approximately HKD1,179,188,000 (equivalent to approximately RMB1,039,549,000).

27. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

(a) Share premium

The proceeds from the issue of shares that exceeds the nominal value of the shares were credited into the share premium.

(b) Merger reserve

The merger reserve of the Group represents the capital contributions from the then shareholders of the subsidiaries.

(c) Exchange fluctuation reserve

The functional currencies of certain overseas subsidiaries are currencies other than the Renminbi ("**RMB**"). As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(d) Statutory reserves

In accordance with the Company Law of the People's Republic of China (the "**PRC**"), the subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC Generally Accepted Accounting Principles, to its statutory surplus reserve until the reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Except for transactions mentioned in note 16, there were no major non-cash transactions during the years ended in 31 December 2019 and 2018.

(b) Changes in liabilities arising from financing activities

	Dividends payable *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2019	**4,000,000**	**–**	**4,000,000**
Changes from financing cash flows:			
Dividend paid to the then shareholders	**(1,500,000)**	**–**	**(1,500,000)**
Principal portion of lease payments	**–**	**(41,668)**	**(41,668)**
Total changes from financing cash flows	**(1,500,000)**	**(41,668)**	**(1,541,668)**
Other changes:			
Dividend declared	**1,700,000**	**–**	**1,700,000**
Additions to lease liabilities	**–**	**50,981**	**50,981**
Accretion of interest recognised during the year	**–**	**123**	**123**
Total other changes	**1,700,000**	**51,104**	**1,751,104**
At 31 December 2019	**4,200,000**	**9,436**	**4,209,436**
At 1 January 2018	–	–	–
Changes from financing cash flows:			
Total changes from financing cash flows	–	–	–
Other changes:			
Dividend declared	4,000,000	–	4,000,000
Total other changes	4,000,000	–	4,000,000
At 31 December 2018	4,000,000	–	4,000,000

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019
	RMB'000
Within operating activities	**7,881**
Within investing activities	**–**
Within financing activities	**41,668**
	49,549

29. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for acquisition of property, plant and equipment	**197,628**	173,963

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office properties under operating lease arrangements. Leases for office properties were negotiated for terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	RMB'000
Within one year	624

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	**Relationship**
江蘇明泰投資集團有限公司 ("**Jiangsu Mingtai Group**")	Controlled by a director
連雲港恒運醫藥科技有限公司 ("**Hengyun**")	Subsidiary of Jiangsu Mingtai Group
江蘇恆瑞醫藥股份有限公司 ("**Hengrui Medicine**")	Joint stock company of a close family member of a director

30. SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2019	2018
	RMB'000	*RMB'000*
Sales to		
Hengrui Medicine	–	272
Purchase from		
Hengyun	–	2,306
Hengrui Medicine	–	206
Loans to		
Jiangsu Mingtai Group	–	367,000

The directors of the Company are of the opinion that the above sales to related parties and purchase from related parties were conducted in the ordinary course of business and on normal commercial terms.

The loans to Jiangsu Mingtai Group were interest-free with maturity terms of within two months. The Group received the repayment in full from Jiangsu Mingtai Group on 31 July 2018.

(c) Balances with related parties:

Due from related parties

	2019	2018
	RMB'000	*RMB'000*
Trade receivables		
Hengrui Medicine	–	11

(d) Compensation of key management personnel of the Group:

	2019	2018
	RMB'000	*RMB'000*
Salaries and bonuses	**63,816**	59,841
Social welfare and other benefits	**1,855**	1,438
Total compensation paid to key management personnel	**65,671**	61,279

Further details of directors' emoluments are included in note 7 to the financial statements.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

2019

Financial assets

	Financial assets at fair value through profit or loss, mandatorily designated as such *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	2,245,959	2,245,959
Financial assets at fair value through profit or loss	2,772,040	–	2,772,040
Financial assets included in prepayments, other receivables and other assets	–	37,455	37,455
Other financial assets	–	3,583,457	3,583,457
Cash and bank balances	–	8,238,422	8,238,422
	2,772,040	14,105,293	16,877,333

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	192,850
Financial liabilities included in other payables and accruals	1,313,456
Lease liabilities	9,436
Dividends payable	4,200,000
	5,715,742

31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2018

Financial assets

	Financial assets at fair value through profit or loss, mandatorily designated as such *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade and bills receivables	–	2,645,207	2,645,207
Financial assets at fair value through profit or loss	2,016,439	–	2,016,439
Financial assets included in prepayments, other receivables and other assets	–	32,015	32,015
Other financial assets	–	511,792	511,792
Cash and bank balances	–	964,831	964,831
	2,016,439	4,153,845	6,170,284

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	158,810
Financial liabilities included in other payables and accruals	1,019,285
Dividends payable	4,000,000
	5,178,095

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Financial assets

	Carrying amount		Fair value	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets at fair value through profit or loss	**2,772,000**	2,011,000	**2,772,040**	2,016,439

Management has assessed that the fair values of cash and cash equivalents, bank deposits with initial terms of over three months when acquired, trade and bills receivables, trade and bills payables, other financial assets, deposits and other receivables, financial liabilities included in other payables and accruals and dividends payable approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
As at 31 December 2019				
Financial assets at fair value through profit or loss	**–**	**2,772,040**	**–**	**2,772,040**
As at 31 December 2018				
Financial assets at fair value through profit or loss	–	2,016,439	–	2,016,439

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 and 31 December 2018.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and cash equivalents, bank deposits with initial terms of over three months when acquired, financial assets at fair value through profit or loss and other financial assets. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. To keep the Group's exposure to these risks to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. The Group's business are located in Mainland China and nearly all transactions are conducted in RMB. As nearly all of the assets and liabilities of subsidiaries in Mainland China were denominated in RMB, these subsidiaries were not subject to significant foreign currency risk. As at 31 December 2019, the Group's assets and liabilities denominated in currencies other than RMB were mainly held by the Company and certain subsidiaries incorporated outside Mainland China which had currencies other than RMB as their functional currencies. The Company and those subsidiaries incorporated outside Mainland China also held bank balances denominated in currencies other than their functional currencies, from which foreign currency exposures arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency	Increase/ (decrease) in profit before tax	Increase/ (decrease) in profit for the year
	%	*RMB'000*	*RMB'000*
2019			
If RMB weakens against USD	**5**	**1,623**	**1,380**
If RMB strengthens against USD	**(5)**	**(1,623)**	**(1,380)**
2018			
If RMB weakens against USD	5	1,415	1,203
If RMB strengthens against USD	(5)	(1,415)	(1,203)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk

The carrying amounts of cash and cash equivalents, bank deposits with initial terms of over three months when acquired, other financial assets, financial assets at fair value through profit or loss, trade receivables and other receivables represent the Group's maximum exposure equal to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash and cash equivalents, bank deposits with initial terms of over three months when acquired, other financial assets and financial assets at fair value through profit or loss since they are substantially held in reputable state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from on-performance by these counterparties.

The Group trades only with recognised and creditworthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable periodically and management also has monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group measures loss allowances for bills receivable at an amount equal to lifetime ECLs. Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivables and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

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

The Group also expects that there is no significant credit risk associated with amounts due from related parties and other receivables since counterparties to these financial assets have no history of default.

For other financial assets, amounts due from related parties and other receivables, impairment is measured as 12-month expected credit losses since there has been no significant increase in credit risk since initial recognition.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

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

	2019				
	Within 3 months or on demand *RMB'000*	**3 months to 1 year** *RMB'000*	**1 year to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Lease liabilities	**893**	**2,760**	**5,783**	**–**	**9,436**
Financial liabilities included in other payables and accruals	**1,313,456**	**–**	**–**	**–**	**1,313,456**
Trade and bills payables	**192,850**	**–**	**–**	**–**	**192,850**
Dividends payable	**–**	**4,200,000**	**–**	**–**	**4,200,000**
	1,507,199	**4,202,760**	**5,783**	**–**	**5,715,742**

	2018				
	Within 3 months or on demand *RMB'000*	3 months to 1 year *RMB'000*	1 year to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Financial liabilities included in other payables and accruals	1,019,285	–	–	–	1,019,285
Trade and bills payables	158,810	–	–	–	158,810
Dividends payable	600,000	2,200,000	1,200,000	–	4,000,000
	1,778,095	2,200,000	1,200,000	–	5,178,095

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of the reporting periods were as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Total liabilities	**6,530,882**	5,946,473
Total assets	**19,575,204**	8,414,371
Debt-to-asset ratio	**33%**	71%

35. CONTINGENT LIABILITIES

As at 31 December 2019, the Group and the Company were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group and the Company expect would materially adversely affect their financial position or results of operations.

36. EVENTS AFTER THE REPORTING PERIOD

The outbreak of coronavirus disease 2019 (COVID-19) has caused disruptions to the pharmaceutical industry in China as well as other countries and regions. Despite the challenges, governments and international organizations have implemented a series of measures to contain the epidemic. The Group will closely monitor the development of the epidemic and assess its impact on the financial position and operating results of the Group.

Save as disclosed above, the Group had no other material events after the reporting period.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2019 *RMB'000*	2018 *RMB'000*
NON-CURRENT ASSETS			
Amounts due from subsidiaries		**1,047,792**	458,279
Total non-current assets		**1,047,792**	458,279
CURRENT ASSETS			
Amounts due from subsidiaries		**4,238,511**	4,046,440
Prepayments, other receivables and other assets		**14,260**	5,065
Other financial assets		**3,383,457**	411,792
Cash and bank balances		**6,647,334**	501,972
Total current assets		**14,283,562**	4,965,269
CURRENT LIABILITIES			
Dividends payable		**4,200,000**	2,800,000
Other payables and accruals		**64,560**	25,961
Amounts due to subsidiaries		**–**	9,364
Total current liabilities		**4,264,560**	2,835,325
NET CURRENT ASSETS		**10,019,002**	2,129,944
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,066,794**	2,588,223
NON-CURRENT LIABILITIES			
Dividends payable		**–**	1,200,000
Total non-current liabilities		**–**	1,200,000
NET ASSETS		**11,066,794**	1,388,223
EQUITY			
Share capital		**51**	1
Reserves	(a)	**11,066,743**	1,388,222
Total equity		**11,066,794**	1,388,223

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(a) A summary of the Company's reserves is as follows:

	Share premium *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2018	1,302,448	14,151	19,501	1,336,100
Profit for the year	–	–	3,984,589	3,984,589
Exchange differences related to foreign operations	–	67,533	–	67,533
Total comprehensive income for the year	–	67,533	3,984,589	4,052,122
Dividends declared	–	–	(4,000,000)	(4,000,000)
At 31 December 2018	1,302,448	81,684	4,090	1,388,222

	Share premium ***RMB'000***	**Exchange fluctuation reserve** ***RMB'000***	**Retained profits/ Accumulated losses** ***RMB'000***	**Total** ***RMB'000***
At 1 January 2019	**1,302,448**	**81,684**	**4,090**	**1,388,222**
Profit for the year	**–**	**–**	**1,685,748**	**1,685,748**
Exchange differences related to foreign operations	**–**	**158,427**	**–**	**158,427**
Total comprehensive income for the year	**–**	**158,427**	**1,685,748**	**1,844,175**
Issue of shares prior to the Initial Public Offering ("**IPO**")	**1,682,278**	**–**	**–**	**1,682,278**
Capitalisation Issue	**(44)**	**–**	**–**	**(44)**
Issue of shares in connection with the IPO	**7,960,847**	**–**	**–**	**7,960,847**
Share issue expenses	**(108,735)**	**–**	**–**	**(108,735)**
Dividends declared	**–**	**–**	**(1,700,000)**	**(1,700,000)**
At 31 December 2019	**10,836,794**	**240,111**	**(10,162)**	**11,066,743**

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

Environmental, Social and Governance Report

ABOUT THE REPORT

The "Hansoh Pharma 2019 Environmental, Social and Governance Report" (hereinafter referred to as the "**Report**") elaborates on the principles adopted by Hansoh Pharmaceutical Group Company Limited (hereinafter referred to as the "**Company**" or "**Hansoh Pharma**") with an aim to fulfill corporate social responsibility and the performance results of the implementation of those principles. This Report has covered topics about sustainable development of environment and society that are of concern to important stakeholders.

Basis of Preparation

The Report is compiled based on the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**"), Appendix 27 to the Listing Rules published by The Stock Exchange of Hong Kong Limited ("**HKEx**") and with reference to the Sustainability Reporting Standards published by the Global Reporting Initiative (GRI) (the "**GRI Standards**").

Scope of Report

The scope of the Report covers the Company and its subsidiaries (collectively, the "**Group**", "**we**", "**us**" or "**our**"), which is consistent with the entities included in the consolidated financial statements. The Company is an investment holding company. The scope of certain parts of the Report covers Jiangsu Hansoh Pharmaceutical Group Co., Ltd. ("**Jiangsu Hansoh**"), a key business entity of the Company, which has been stated at the relevant section.

Principal Subsidiaries

Hansoh Pharma International Limited
Hansoh (Shanghai) Health Technology Co., Ltd.
Jiangsu Hansoh Pharmaceutical Group Co., Ltd.
Shanghai Hansen Technology Co., Ltd.
Jiangsu Hengte Pharmaceutical Sales Company Limited

Time Range

The reporting year of the Report is from January 1, 2019 to December 31, 2019.

Explanation to Data

All data and cases in the Report are collected based on the original records and financial reports about the actual operation of the Group.

Reliability assurance

The board of directors of the Company confirms that there are no false information, misleading statements or material omissions in the content of the Report.

OVERVIEW OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE IN 2019

Social Performance

Total number of employees: **9,178**

Female representation in senior officers: **21.1%**

Number of hours of staff training per capita: **20.24**

Community investment: **RMB38,660,800**[1]

Investment in targeted poverty alleviation: **RMB8,004,100**

- **Two national Category 1.1 innovative drugs**, Fulaimei (polyethylene glycol loxenatide for injection) and Hansoh Xinfu (flumatinib mesylate), were **approved for marketing**, indicated for the treatment of Type-II diabetes and chronic myelogenous leukemia respectively
- Fulaimei (polyethylene glycol loxenatide for injection) was awarded the "**National Quality Innovation Contest – V Grade Prize**" (全國質量創新大賽V級獎) by China Association for Quality (中國質量協會)
- Key product Pulaile (pemetrexed disodium for injection) was awarded the "**Champion Single Products in Manufacturing Industry**" (製造業單項冠軍產品) by the Ministry of Industry and Information Technology (工信部)
- The international industry project for intelligent manufacturing of oncology drugs included in "**National Manufacturing High-quality Development**" projects (國家製造業高質量發展)
- 14 projects were approved for the **Establishment of the State's Major Science and Technology Project for New Key Drug Formulation** (國家重大新藥創制科技重大專項立項)

Environmental Performance

The water consumption for each 10,000 tablets decreased by **14%** compared with last year

The emission of hazardous wastes per unit of output decreased by **14.2%** compared with last year

1 The statistical data of community investment and investment in targeted poverty alleviation is of Jiangsu Hansoh.

Major Honors

Jiangsu Hansoh

- won "**R&D-driven Pharmaceutical Companies in China**" (中國醫藥研發產品線最佳工業企業) for consecutive years
- was awarded "**National Green Factory**" (國家級綠色工廠) by the Ministry of Industry and Information Technology
- received the "**2019 Green Enterprise Management Award**" (2019年度綠色企業管理獎)
- was granted "**Jiangsu Provincial May Day Labor Award**" by Jiangsu Provincial Federation of Trade Unions (江蘇省五一勞動獎狀)

1A GLIMPSE OF HANSOH PHARMA

1.1 Corporate Overview

Company name: Hansoh Pharmaceutical Group Company Limited (翰森製藥集團有限公司)

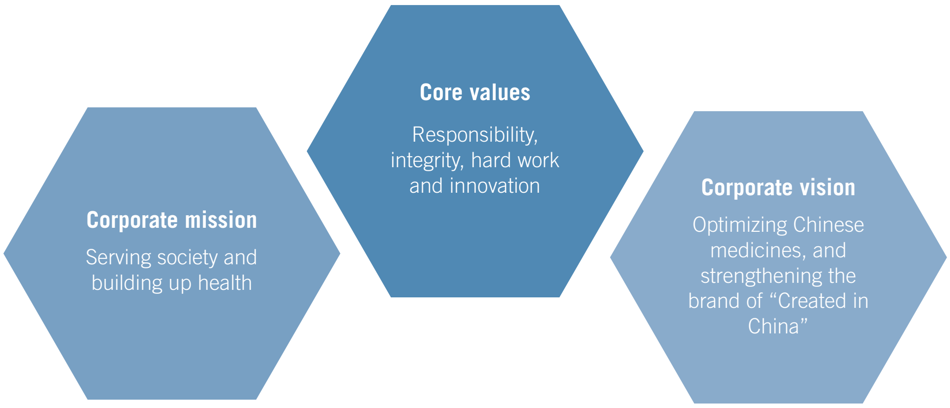
Stock Code: 3692

Headquartered in: Lianyungang, Jiangsu

Operating sites: The Group has 2 research and development centers in Lianyungang and Zhangjiang, Shanghai, 1 active pharmaceutical ingredient production base and 2 pharmaceutical production bases in Lianyungang, and 1 production base in Changzhou.

Environmental, Social and Governance Report

Our corporate culture and values

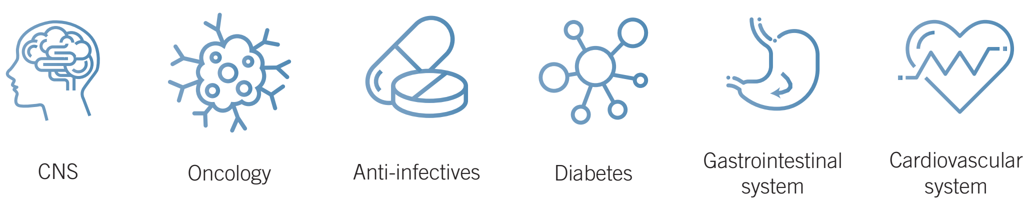


Our business

The Group is one of the leading research and development-driven pharmaceutical companies in the People's Republic of China (the "**PRC**" or "**China**"), devoting itself to meet the unmet clinical needs of patients and improve the health and well-being of human beings through continuing innovation.

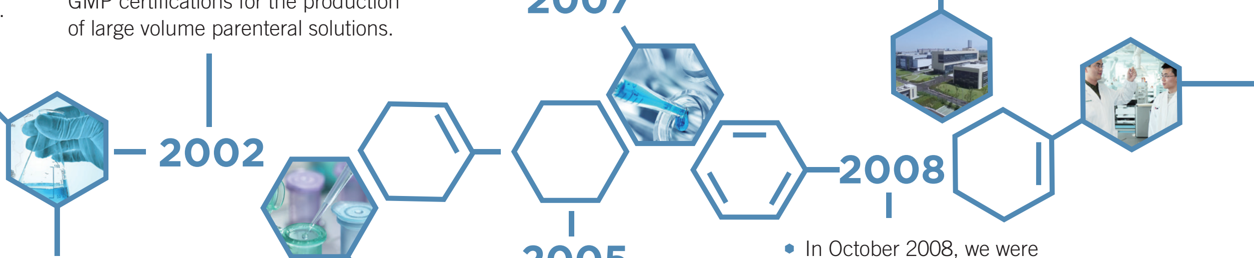
The Company has established a leading position in some of the largest and fastest-growing therapeutic areas in the PRC with significant unmet clinical needs, including central nervous system ("**CNS**") diseases, oncology, anti-infectives and diabetes. The core driving force of the Company is its focus on innovation. The Company has continuously increased its investments in research and development ("**R&D**") over the years, established a sound R&D platform and mastered a number of proprietary technologies. It has successfully launched and developed a series of innovative drugs and first-to-market generic drugs. During the year under review, the Company successfully launched seven new drugs in total, including two innovative drugs, Fulaimei (polyethylene glycol loxenatide for injection) and Hansoh Xinfu (flumatinib mesylate).

The Company attaches great importance to product quality. It has maintained the advanced nature of its production quality system through overseas certification, while at the same time constantly expanding the business pipeline of its principal businesses. In addition, it continues to introduce advanced management concepts and tools to improve the overall operation efficiency of the Group. As the innovative drugs are approved for marketing from time to time, the Company devotes efforts to improve its professional marketing capability and increase the understanding and knowledge of medical professionals regarding the innovative drugs.



Development history

Hansoh Development Footprint



1995

- In July 1995, Jiangsu Hansoh was established.

2000

- In July 2000, we launched our first GMP manufacturing facility.

2002

- In March 2002, we were recognized as a Key High and New-Technology Enterprise of the National Torch Program (國家火炬計劃重點高新技術企業).
- In March 2002, we obtained Chinese GMP certifications for the production of large volume parenteral solutions.

2003

- In October 2003, our active pharmaceutical ingredient, vinorelbine tartrate, was approved by the FDA.

2005

- In July 2005, we were ranked top 20 in the 2005 Forbes list of Chinese enterprises with potential (2005年福布斯中國最具潛力企業排行榜).

2007

- In March 2007, the opening ceremony of our Postdoctoral Program Workstation was held (博士後科研工作站).

2008

- In October 2008, we were was certified as a National Enterprise Technology Center (國家級企業技術中心).

2011

- In June 2011, the construction of the principal part of our new pharmaceutical industrial park was completed.

2013

- In May 2013, our pharmaceutical products Zefei and Gainuo were approved by the FDA.
- In December 2013, we were awarded with the State Science and Technology Award (second prize) (國家科技進步二等獎) for our new oncology drug gemcitabine hydrochloride for injection (Zefei).

2014

- In March 2014, our self-developed national Category 1.1 innovative drug Mailingda (morinidazole sodium chlorider injection), the third generation nitroimidazole-class antibiotic, was approved for sale in China.
- In November 2014, we received the Golden Prize of the WIPO-SIPO Award for Chinese Outstanding Patented Invention & Industrial Design (專利金獎) for the preparation of our new oncology drug gemcitabine hydrochloride for injection (Zefei).
- In December 2014, we were awarded with the State Science and Technology Award (second prize) (國家科技進步二等獎) for our new antipsychotic drug olanzapine tablets (Oulanning).

2015

- In December 2015, we were was recognized as an Intellectual Property Advantageous Enterprise (國家知識產權優勢企業) by the State Intellectual Property Office of China (國家知識產權局).

2016

- In January 2016, Pulaile (pemetrexed disodium for injection) was approved by the Japanese PMDA.

2017

- In December 2017, we were was recognized as one of the "Top 100 Most Powerful Chinese Chemical and Pharmaceutical Industrial Enterprises in 2017" (2017中國化學製藥行業工業企業綜合實力百強), "Chinese Chemical and Pharmaceutical Industry Innovative and Excellent Enterprises in 2017" (2017中國化學製藥行業創新型優秀企業品牌) and "Chinese Chemical and Pharmaceutical Industry Excellent Integration Enterprises in 2017" (2017中國化學製藥行業兩化融合推進優秀企業品牌)by the China Pharmaceutical Industry Association (中國化學製藥工業協會).

2018

- In February 2018, Hansoh received "Jiangsu Provincial Quality Award" (江蘇省質量獎) from the People's Government of Jiangsu Province (江蘇省人民政府).
- In August 2018, Hansoh ranked second in the top 20 for "R&D-driven pharmaceutical companies in China" (2018年中國醫藥研發產品線最佳工業企業).

2019

- In January 2019, the construction of the principal part of Changzhou Hengbang Phase I was completed.
- In May 2019, polyethylene glycol loxenatide for injection (Fulaimei), a national Category 1.1 innovative drug, was approved for marketing.
- In June 2019, our investment holding entity Hansoh Pharma was listed in Hong Kong (stock code: 03692).
- In November 2019, flumatinib mesylate (Hansoh Xinfu), a national Category 1.1 innovative drug, was approved for marketing.

Environmental, Social and Governance Report

1.2 Our Social Responsibility Concepts and Management

Corporate social responsibility concepts

As a pharmaceutical enterprise, we are committed to the R&D and manufacturing of drugs for urgent clinical needs, in a bid to reduce the threat to human health from diseases and constantly prolong life expectancy and improve the life quality of patients. Meanwhile, we take active measures in regard to quality control, environmental protection, human rights and labor relations, as well as charity, showcasing our mission and responsibility.

- Strictly implement the Good Supply Practice for Pharmaceutical Products, and continue to develop safe and economical drugs with more curative effect, whereby enabling patients to have easier access to state-of-the-art drugs
- By upholding the business philosophy of "professional marketing and benefiting the general medical specialists and patients", render responsible services to customers

- Strictly protect the legitimate rights and interests of employees, attach importance to employee development, and build harmonious and friendly labor relations

- Practice the concepts of environmental protection, low carbon and energy-saving in each process such as product and technology design, production and waste treatment

- Focus on medical assistance, student aid and poverty alleviation, proactively carrying out charity activities to contribute to society

Analysis and management of material topics

In accordance with the ESG Reporting Guide of the HKEx and the GRI Standards, and considering the business characteristics of the Group, we have identified and summarized 14 material topics on social responsibility in relation to operation of the Group.

Based on the practice of industry comparables and expert advice, we have sorted the 14 material topics to obtain the matrix of material topics. The Report provides response to and disclosure of each material topic.

Topic identification

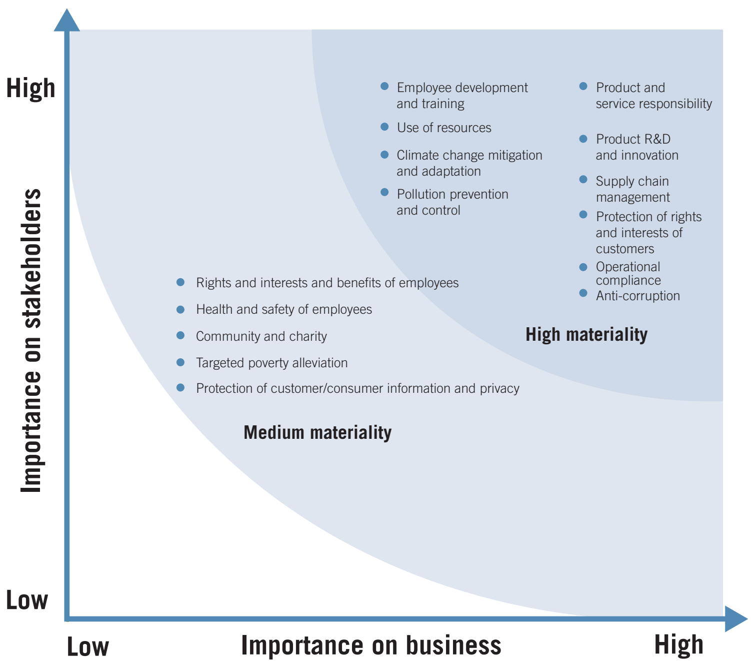
To identify environmental, social and governance topics in accordance with the ESG Reporting Guide of the HKEx and the GRI Standards.

Sorting

To sort the topics and screen 14 topics in relation to company operation based on the practice of domestic and overseas industry comparables and actual operations of the Company.

Verification

To further screen highly material topics by seeking expert advice, and focus on responding to them in the Report.



2 OPERATIONAL COMPLIANCE

Corporate operation and development are based on the compliance with laws and regulations and business ethics. We implement the concepts of compliance with laws in each stage of production and operation, build a culture of compliance, take anti-corruption measures, and respect and protect intellectual property rights, ensuring that each task can be carried out in a compliant and responsible manner.

2.1 Anti-corruption and Business Ethics

The Group formulated Business Ethics and Code of Conduct (商業道德及行為準則), stipulating the prohibition of non-compliance conducts such as corruption and bribery, and formulated specific compliance requirements on various business promotion activities, meetings and donation.

We set up a compliance department and built three lines of defense including "risk bearer (i.e. marketing personnel), compliance forefront (i.e. business partner) and risk manager (i.e. compliance department and management)" (風險所有方(即營銷人員)、合規前沿(即業務夥伴)、風險管理方(即合規部與管理層)) and strengthen the compliance awareness of employees by compliance risk assessment and control, third-party due diligence and compliance training. In addition, we set up complaint hotlines and mailboxes for internal control and audit department and compliance department, and arranged specialists for verifying and investigating the complaints.

Abstract of Business Ethics and Code of Conduct

Article 10 Anti-bribery and anti-corruption

10.1 Management personnel and employees of Hansoh Pharma and other persons act on behalf of Hansoh Pharma shall not offer, pay or accept bribes.

10.2 Actions taken on behalf of Hansoh Pharma shall be guaranteed to be justified and will not be misunderstood if they are made public. To this end, the following aspects requiring particular attention: relationship with third parties, visits to and inspections on Hansoh Pharma, arrangements of marketing activities, contact and communication with and entertainment of medical professionals (execution subject to Chapter II and Chapter III of this Code).

10.3 All employees of Hansoh Pharma are obliged to report all bribery and corruption issues that have occurred or may occur.

Article 11 Fair trade and competition

11.1 Hansoh Pharma adheres to the philosophy of fair and legal competitions, and strictly abides by the applicable competition laws.

11.2 Issues like competition and anti-monopoly may arise from the contacts with competitors or the relations with their suppliers and customers. In case of breaching the Anti-Monopoly Law and the Anti-Unfair Competition Law, the Company and relevant responsible personnel will have to undertake the resulting legal liabilities, including criminal and administrative punishment and civil compensation. Therefore, the following acts of unfair competition that have violated or may violate laws such as the Anti-Monopoly Law and the Anti-Unfair Competition Law are prohibited:

a) Discuss about prices with competitors;

b) Reach agreements with competitors to control prices, carve up the market and manipulate bids;

c) Try to hinder other competitors' access to the market;

d) Eliminate competition; and

e) Adopt "predatory" pricing strategies where prices are lower than costs.

Main measures for compliance risk assessment and management

Category	Main content
Assessment and control of internal risk positions	• Assessing the compliance risks in respect of procurement, engineering and marketing to determine the high-risk positions • Organizing pre-job and on-the-job compliance trainings for employees at high-risk positions, and signing compliance undertakings with them
Third-party due diligence	• Inquiring the compliance issues of key suppliers and customers through platforms such as TianYanCha.com, yarnn.com, wenshu.court.gov.cn, etc. • Tracking the data of customers through riskraider.com on a monthly basis to provide in advance warning of material risks in real-time

Compliance training

On December 13, 2019, our compliance department organized a compliance training on "publicity and implementation of compliance in business activities" for our medical consultants, emphasizing operational compliance in business practices and its importance, and strengthening operational compliance of medical consultants in business activities.

2.2 Management and Protection of Intellectual Property Rights

The Group respects the intellectual property rights and formulates a guiding principle of "increasing the awareness and consolidating the foundation of intellectual property rights, and spearheading drug innovation in China" (強化知識產權意識、夯實知識產權基礎，做中國創新藥物的領跑者) on intellectual property. Additionally, the Group has formulated Measures for Patent Work of Research Institutes (研究院專利工作辦法) and Administrative Measures on Protection for Technical Achievements of Research Institutes (研究院技術成果保護管理辦法), standardizing the requirements and workflow of protection for patents, and formulates Tracking of Legal Status of Patent Projects and Operating Instruction on Early Warning (項目專利法律狀態跟蹤與預警操作規程) to control various risks of the intellectual property rights of each project.

Jiangsu Hansoh passed the GBT 29490-2013 management system certification for intellectual property rights, and was granted the title of "Intellectual Property Right Model Enterprise in China" (國家知識產權示範企業).

Table of Key Quantitative Performance of Operational Compliance

Performance indicator	Unit	2017	2018	2019
Number of closed cases on corruption filed against the issuer or its employees during the reporting period	Case	0	0	0
Number of persons participating in anti-corruption training	Person	1,107	2,976	5,239
Number of subsidiaries conducting corruption risk assessment	Subsidiary	3	4	4

The Group has strictly obeyed laws and regulations in all respects of production and operation. It did not violate laws or regulations and was not subject to any penalty by regulatory authorities during the year of 2019.

Main laws and regulations and standards followed by the Group in production and operation

Category	Laws and regulations followed
Anti-corruption	Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法), Advertising Law of the PRC (中華人民共和國廣告法), Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定), etc.
Protection of intellectual property rights	Patent Law of the PRC (中華人民共和國專利法), Rules for the Implementation of the Patent Law of the PRC (中華人民共和國專利法實施細則), Guidelines for Patent Examination (專利審查指南), Civil Procedure Law (民事訴訟法), Anti-Unfair Competition Law (反不當競爭法), etc.
Product quality	Drug Administration Law of the PRC (中華人民共和國藥品管理法), Rules for the Implementation of the Drug Administration Law of the PRC (中華人民共和國藥品管理法實施條例), Good Manufacturing Practice ("**GMP**") (藥品生產質量管理規範), Good Supply Practice (GSP) (藥品經營質量管理規範), Good Clinical Practice (GCP) (藥品臨床試驗質量管理規範), Good Laboratory Practice (GLP) (藥品非臨床研究質量管理規範), Measures for the Administration of Drug Recall (藥品召回管理辦法), Provisions on the Administration of Drug Instructions and Labels (藥品説明書和標籤管理規定), ICH Guidelines, EU-GMP, U.S. Food and Drug Administration's Code of Federal Regulations Title 21 (US 21 CFR), etc.
Responsible marketing	Drug Administration Law of the PRC (中華人民共和國藥品管理法), Rules for the Implementation of the Drug Administration Law of the PRC (中華人民共和國藥品管理法實施條例), Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法), Advertising Law of the PRC (中華人民共和國廣告法), Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定), etc.
Customer privacy protection	Anti-Unfair Competition Law (反不正當競爭法), Contract Law (合同法), Criminal Law (刑法), Cybersecurity Law of the PRC (中華人民共和國網絡安全法), Cryptography Law (密碼法), etc.
Employment	Labor Law of the PRC (中華人民共和國勞動法), Labor Contract Law of the PRC (中華人民共和國勞動合同法), Law of the PRC on Work Safety (中華人民共和國安全生產法), Fire Protection Law of the PRC (中華人民共和國消防法), Law of the PRC on Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法), Regulations of Jiangsu Province on Work Safety (江蘇省安全生產條例), Regulations of Jiangsu Province on Firefighting and Prevention (江蘇省消防條例), etc.
Pollution prevention and control	Integrated Emission Standards of Air Pollutants (大氣污染物綜合排放標準), Standards for Fugitive Emission of Volatile Organic Compounds (2019) (2019年揮發性有機物無組織排放控制標準), Discharge Standards of Water Pollutants for Pharmaceutical Industry Chemical Synthesis Products Category (化學合成類製藥工業水污染物排放標準), Wastewater Quality Standards for Discharge to Municipal Sewers (污水排入城鎮下水管道水質標準), Emission Standards of Pollutants for Petroleum Chemistry Industry (石油化學工業污染物排放標準), Emission Standards of Air Pollutants for Pharmaceutical Industry (2019) (2019年製藥工業大氣污染物排放標準), Emission Standards of Volatile Organic Compounds for Chemical Industry of Jiangsu Province (江蘇省化學工業揮發性有機物排放標準), etc.

3 PREMIUM PRODUCTS AND SERVICES

As a leading drug R&D and production enterprise in China, providing more and better drugs to benefit patients is not only the development lifeline of the Group, but also an important orientation for us to serve the society. Through constant R&D and innovation and adhering to high-standard quality management, we are committed to providing high-quality products in the CNS disease, oncology, anti-infective and diabetes fields with a huge clinical demand gap in the market in China, and benefiting both patients and society.

3.1 Product Quality Management

Quality Management System

The drug production line of the Group strictly complies with the GMP, and the Group has formulated management regulations and Standard Operating Procedures (SOP) (標準作業程序) for such aspects as production management, quality management, storage management, utility management, equipment management, and safety and environmental management. Meanwhile, we adhere to the quality policy of "all staff, whole process and continuous improvement" (全員、全過程、持續改進) to manage and control the health and safety risks of products in all processes from product R&D and production to marketing, covering the whole life cycle of drugs and ensuring the quality and safety of drugs.

Certified by ISO9001 quality management system

Scope of certification: production of tablets, lyophilized powder for injection (including oncology injections) and small volume injections (non-terminal sterilization, including oncology injections) of the Administrative R&D Center (No.9, Dongjin Road) and the Pharmaceutical Production Division (No.5, Dongjin Road)

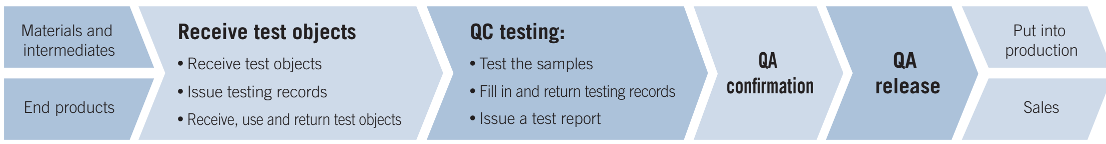
Whole-process drug quality and safety management

R&D	Production	Marketing
• To conduct clinical trials to test the quality effects and adverse reactions of drugs	• To strictly test the quality of raw materials • To strictly follow the approved production and technology process • To strictly test the product quality so that products can only be sold after passing the test and being released • To manage and monitor the auxiliary system used in the production process	• To establish a product complaint and recall system to monitor the problems in respect of the quality, adverse reactions and service after products are sold

Quality testing

In consideration of drug safety for patients and in accordance with the relevant provisions of the GMP, the Group upholds the principle of "not inputting nonconforming materials and intermediates and not delivering nonconforming products" (不合格物料、中間體不准投料，不合格成品不准出廠) in quality testing and management, and has formulated corresponding sampling procedures, quality standards and inspection operation specifications for materials, intermediates and end products.

Quality testing process of materials, intermediates and finished products



Besides, we have clearly stipulated in the Nonconforming Product Handling Procedure (不合格品處理規程) that "nonconforming preparation products cannot be reworked or reprocessed in general" (不合格的制劑產品一般不得進行返工或重新加工). Instead, we isolate nonconforming products or take other effective control measures, and stick clear status labels so that they can be destroyed or returned.

Quality and safety training

Ensuring the quality and safety of drugs requires the joint efforts of all employees. Therefore, we attach great importance to improving employees' quality and safety awareness and abilities, regularly carry out quality and safety training, which covers GMP knowledge, relevant laws and regulations, as well as management systems in such aspects as production, quality, storage, safety and environment, and we also reinforce the training effect by carrying out full staff examination.

Product recall system

Pursuant to the provisions of the Administrative Measures for Drug Recalls (Decree No. 29 of the SFDA) (藥品召回管理辦法(局令第29號)) issued by the former State Food and Drug Administration (SFDA) (原國家食品藥品監督管理局), China GMP, EU GMP and US 21 CFR and other laws and regulations, the Group has established the drug recall management procedures, and conducts a mock recall in the domestic market once a year and that in the overseas market every two years to avoid or minimize the occurrence of drug quality accidents and reduce the possible harm to human health and life safety caused by drugs with potential safety hazards. The Group did not recall any products due to product quality and safety problems during the year of 2019.

Product recall process

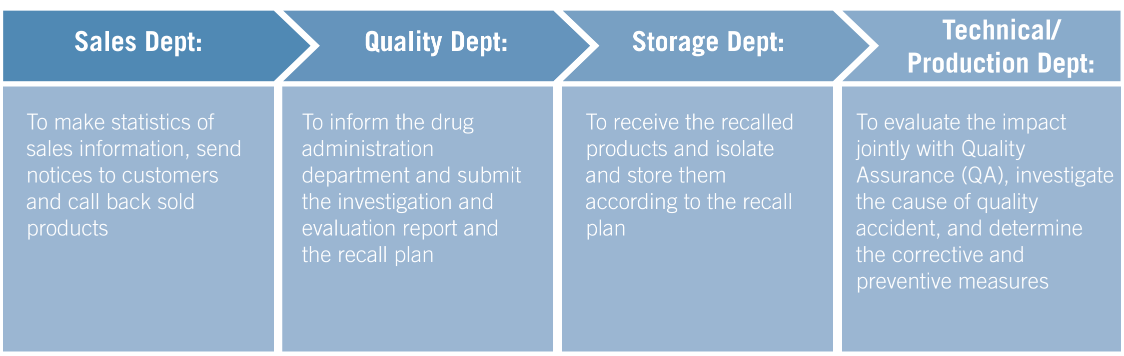


Table of Key Quantitative Performance of Product Responsibilities

Performance Indicator	Unit	2019
Total number of violations of laws and regulations in health, safety and labelling of products and services provided	/	0
Amount of sold or shipped products that need to be called back due to safety and health reasons	RMB0'000	0

Note: The statistical caliber for key quantitative performance of product responsibilities is of Jiangsu Hansoh.

3.2 Supplier Management

Supplier management is crucial for guaranteeing stable production and product quality. According to the impact on product quality, we classify suppliers into category A material suppliers (active pharmaceutical ingredients, excipients, and packaging materials), category B material suppliers (non-key excipients, chemical reagents for production, sterile gloves, etc.), and category C material suppliers (auxiliary tools for production without direct contact with products such as laboratory glassware, chromatographic columns, reagents, etc.). We select suppliers based on the principles of "legality, high quality, designated location, proximity, economy, timeliness and green environmental protection", and have formulated the Supplier Confirmation and Management Procedures (供應商的確認與管理程序) and the Supplier Management Manual (供應商管理手冊) to standardize the supplier category management and supplier code of conduct.

Summary of supplier code of conduct in Supplier Management Manual

Provisions of the supplier code of conduct on the environmental, labor and other social responsibilities of suppliers:

3.1.2 on environmental management: The supplier shall implement environmental policies to ensure that all operation and production processes meet the requirements of relevant standards, laws and regulations, and implement basic environmental factors management to continuously improve the environmental performance;

3.1.3 on social responsibility: The supplier shall ensure that all the operation and production processes comply with relevant standards, laws and regulations, and the management needs to ensure that its social responsibility system is in place and the supplier shall support and respect internationally recognized human right requirements, respect the right to establish and join the trade union, guarantee fair opportunities, and comply with all the prevailing laws and industry requirements related to the employment, working hours and adequate salaries provided to employees. It is prohibited to employ child labor or support such behavior, or use such means as forced labor, torture, punishment and discrimination.

In the stage of supplier introduction, we carry out a questionnaire survey on new suppliers, covering multiple aspects such as quality management, environmental management, social responsibility, occupational health and safety management, and service delivery time. For existing suppliers, we sign a supply quality agreement with them, and put forward requirements in respect of their social responsibilities, safety and environmental protection. Moreover, the Group strengthens routine management of suppliers by carrying out supplier audit, supplier evaluation, supplier communication, etc., and trains the purchasing personnel according to the Supplier Management Manual (供應商管理手冊) so as to enhance their focus on the supplier's environmental and social responsibilities.

Supplier management measures

Supplier Audit	Supplier Evaluation	Supplier Communication
• **Object:** suppliers of categories A and B materials • **Frequency:** conduct an on-site audit on category A material suppliers every three years and written audit on category B material suppliers every five years • **Content:** supplier qualification certificate, production capacity, quality assurance system, rectification of previous problems, etc.	• **Object:** qualified suppliers • **Frequency:** once a year • **Content:** supplier change, supplier qualification and agreement validity	• Initiate an annual discussion forum with suppliers

For unqualified suppliers, we actively procure them to take corrective measures, and review whether they have improved. If they fail to meet relevant requirements, they will be disqualified.

Table of Key Quantitative Performance of Supplier Management

Performance Indicator	Unit	2019
Total suppliers	/	4,890
Number of suppliers in Chinese Mainland	/	4,721
Number of suppliers overseas and in Hong Kong, Macao and Taiwan	/	169
Number of suppliers carrying out environmental impact assessment[1]	/	210
Number of suppliers carrying out social impact assessment[1]	/	210
Proportion of local procurement[2]	%	23.96
Percentage of purchasers who have received sustainable procurement training	%	100
Percentage of suppliers who have signed the sustainable procurement charter/supplier code of conduct	%	93

Notes:

1. The number of suppliers carrying out environmental impact assessment and social impact assessment, and the percentage of suppliers who have signed the sustainable procurement charter/supplier code of conduct are only counted among the material suppliers who have signed a quality agreement.

2. Proportion of local procurement = Amount of procurement expenditure to local suppliers/Total amount of procurement expenditure.

3. The statistical caliber of total suppliers is of the Group, and that of other supplier management indicators is of Jiangsu Hansoh.

3.3 Quality Service

Responsible marketing

The Group's products are all prescription drugs, which do not involve product advertising. We do not directly promote drugs to patients, but improve the doctors' and other healthcare professionals' understanding of the use, clinical efficacy and advantages of drugs through clinical data-oriented academic promotion activities. The instructions and outer packages of the drugs we produce have been put on record by the National Medical Products Administration.

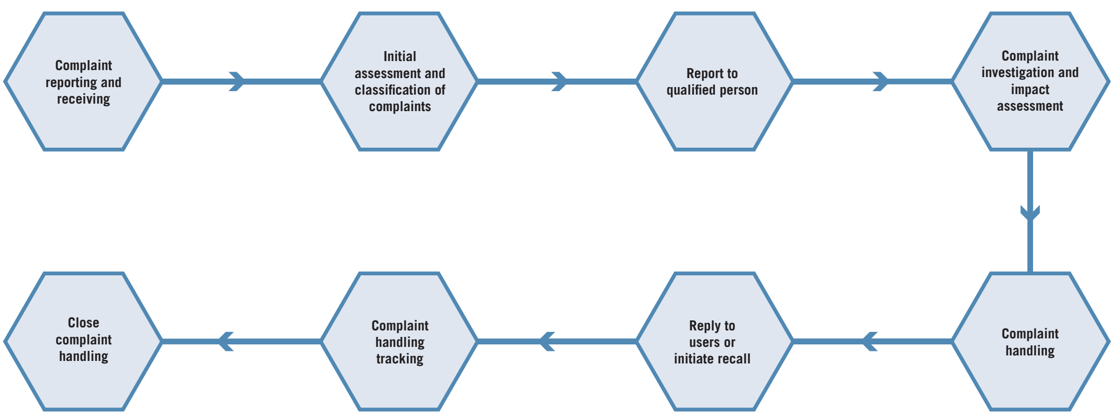
The Group conducts pre-job training on corporate culture and marketing-related system management for the marketing personnel, and signs the Compliance Responsibility Letter (合規責任書) with them to standardize marketing behaviors and strengthen their awareness of responsible marketing.

In addition, our sales market includes overseas markets such as the United States, Japan, Europe, Southeast Asia, the Middle East and Latin America. The Group carries out drug registration in accordance with the requirements of food and drug supervision laws and regulations in each market, implements strict evaluation on overseas cooperative customers, including the qualifications and standardization of their sales behaviours such as local promotion, distribution, and delivery, and signs confidentiality agreements, cooperation agreements and quality agreements with overseas cooperative customers to regulate their sales behaviors and guarantee the legal compliance of the Group's sales behaviours in overseas markets.

Customer satisfaction and complaint management

We focus on customer needs and regularly monitor customer satisfaction to make improvement. Our customer satisfaction was 87.90% during the year of 2019. In addition, we have formulated the User Complaint Investigation and Handling Procedures (用戶投訴調查處理程序) to standardize the user complaint handling process and handle customer complaints timely and accurately.

Customer complaint handling process



Customer privacy protection

The Group will have access to customers' privacy and trade secrets of cooperative customers in the process of business development. We attach great importance to the protection of customer privacy. We have established an Information Security Committee to directly handle information security related reports, and strengthen data security and customer privacy protection through information system risk assessment, signing of confidentiality agreements and cooperation agreements, training, etc.

Customer privacy protection measures

Measure	Description
Information system risk assessment	To carry out security risk assessment on such aspects as physical security, network security, host security, application security, data security and backup recovery, security management system, security management organization, personnel security management, system construction management, and system operation and maintenance management on the Cloud Class Enterprise Talent Development Service Platform (雲學堂企業人才發展服務平台) to ensure security of system operation
Signing of confidentiality agreements and cooperation agreements	To sign confidentiality agreements and cooperation agreements with partners, and clarify in contracts the rights and obligations regarding customer privacy data or data protection
Training	To conduct irregular training on customer privacy protection for new employees and on-the-job marketing personnel. In September 2019, the Group carried out law popularization training for relevant personnel of the Business Division, covering training on basic knowledge such as business confidentiality, compliance obligations and legal liabilities for breach of confidentiality obligations

Table of Key Quantitative Performance of Customer Responsibilities

Performance Indicator	Unit	2019
Total of violations in marketing promotion	/	0
Total of violations in customer privacy	/	0
Number of received complaints about products and services	/	15
Total of complaints on confirmed violation of customer privacy and loss of customer information	/	0

Note: The statistical caliber for key quantitative performance of customer complaints and privacy protection is of Jiangsu Hansoh.

4 RESPONSIBILITY FOR EMPLOYEE DEVELOPMENT

Human resources are valuable assets of an enterprise. The Group, adhering to the people-oriented philosophy, has been committed to protecting legitimate rights and interests of employees, establishing sound internal communication mechanisms for them, and ensuring their occupational health and safety. Meanwhile, we focus on the career training and development of employees, and devote ourselves to expanding promotion channels and creating a harmonious and peaceful work atmosphere for employees.

4.1 Protection and Caring for Employees' Rights

Employment

The Group has established Recruitment Management System (招聘管理制度) and Attendance Management System (考勤管理制度) to regulate the management of employment, hours of work and vacations of employees. In addition, we conduct anti-harassment training for employees and make rules on anti-harassment and anti-discrimination in the Employee Handbook (員工手冊).

Anti-discrimination Rules of Employee Handbook

- √ Give equal opportunities to men and women, and prohibit denying employment opportunities to a candidate because of gender
- √ Prohibit denying employment opportunities to a female candidate based on her marital or childbearing status
- √ Prohibit denying employment opportunities to a candidate based on nationality
- √ Prohibit denying employment opportunities to a candidate because he/she has a physical defect that does not affect the his/her normal work performance

Overview of Policies on Employment and Employee's Rights

Recruitment, Layoff and Promotion

- √ **Recruitment Principles:** Prohibit employment of child labor, oppose employment discrimination, and treat every applicant and employee equally
- √ **Layoff:** Human resources Department, in accordance with Employee Handbook (員工手冊), gives a written notice to the employee and his/her department 30 days ahead, arranges work handover and other resignation procedures, issues Resignation Proofs (離職證明) and Termination of Employment Contract (解除勞動合同協議書), and pays monetary compensation.
- √ **Promotion Channels:** Job promotion, technical hierarchical promotion, job and technology interconnection management

Hours of Work and Vocations

- √ **Hours of Work**: Encourage employees to efficiently finish their work within 8 hours. Working overtime is discouraged, and the overtime working shall not exceed 36 hours a month. After the working overtime, the company will arrange rest days or pay overtime premiums. The pay for extended working hours on working days and working overtime on public holidays is calculated based on 2 times of the base salary, and that for statutory holidays is based on 3 times of the base salary.
- √ **Vacations:** The vacation days are consistent with national holidays, and the paid annual vocation days comply with the national provisions on paid annual vacation days linked to the cumulative working hours

Remuneration and Benefits

- √ **Social Insurance:** Pay social insurance contributions for all employees on time and as required by policies, and maintain accident insurance policies for active employees (and their children with eligibility), interns, and rehired employees after retirement
- √ **Remuneration:** Follow the concept of "Pay for job value, pay for job performance and pay for personal ability" (為崗位價值付薪，為業績貢獻付薪和個人能力付薪) when paying remunerations, and make salary adjustment plan on a regular basis
- √ **Incentives:** Provide employee equity incentives for executives, core management and technical staff
- √ **Benefits:** working lunch, shuttle bus, holiday allowance, travel allowance, youth apartments, education and training, company travel, medical care and scholarships for employees' children, employee mutual funds, group accident insurance for employees, comprehensive insurance for employees' children, etc.

Employee Communication and Care

The Group puts emphasis on communication with employees. It has established the function of Staff Representative Assembly, and provides employees with diversified communication channels through two-way active communications initiated by employees and enterprise respectively to maintain smooth communication between the Group and our employees.

During the year of 2019, Jiangsu Hansoh organized the Staff Representative Assembly to discuss the addition of union members, re-election of the union president, change of the chairman of mutual fund committee, and classification of major diseases for the mutual fund, and approved the Classification of Major Diseases of Mutual Fund (互助基金大病分類分級). Furthermore, Jiangsu Hansoh entered into collective agreements with employees, such as the Collectively Negotiated Contract for Wages (工資集體協商合同書), the Special Collective Contract for Occupational Safety and Hygiene (勞動安全衛生專項集體合同), and the Special Collective Contract for Special Protection of Female Employees (女職工特殊保護專項集體合同), and was awarded the "3-Star Enterprise for Collective Negotiation" (集體協商三星企業).

Employee Communication Approaches and Channels

Communication approaches	Communication channels
Communication initiated by employees	• Suggestion box: The Group has adopted the mailbox of President, the information from which will be regularly collected and sorted out by relevant departments and then be reported to the management for processing, and the responses will be displayed in public • Employee hotline: The Group has set up an employee hotline, and the Labor Union will record questions or claims from employees, and follow up to handle them in a timely manner
Communication initiated by enterprise	• Organizing symposiums: including female employees symposiums, youth representative assembly, party congresses, veteran symposiums, senior employee symposiums, etc., to listen to suggestions from employees • Collecting rational suggestions on special topics: Organizing activities such as rational suggestions collection, Six-Little-Things labor competitions (i.e. competitions on reform, invention, design, suggestion, savings and tips), and technical improvement campaigns every year to encourage employees to provide suggestions for the development of the Company • Questionnaire survey on employee satisfaction: Conduct questionnaire survey on employee satisfaction among all employees every year, and implement improvement measures according to employees' advice

The Group advocates work-life balance, and organizes various forms of cultural and sports activities by establishing employee cultural and sports association, art troupes, choirs, dance crew, table tennis & badminton association, basketball association, and fishing association. In 2019, the Group launched a dozen of campaigns including choral competitions, painting, calligraphy and photography competitions and ball competitions, attracting more than 2,000 participants. Also, the Group carried out employee care activities for groups such as employees in need, female employees and senior employees.

Employee Care Events

Category	Events
Caring for employees in need	• Established the Employee Mutual Fund (職工互助基金會) of the Group to help employees in need. During the year of 2019, the Fund had appropriated RMB1.21 million to fund 270 person-times • Visited and expressed sympathy to poverty-stricken employees and retired employees because of illness during the Spring Festival, and provided them with targeted services such as living allowances of RMB400-600/month/person. During the year of 2019, a total of RMB14,400 was granted to 2 poverty-stricken employees and an allowance of RMB9,600 was paid to 2 retired employees because of illness
Caring for female employees	• Set up healthcare rooms for female employees • Provided female employees with several gynecological examination items in check-ups • Carried out a series of activities related to caring for female employees on March 8, the Women's Day • Held lectures on modern marriage and family management and parent-child relationship
Caring for senior employees	• Sent tailor-made souvenir gifts and movie tickets to employees serving the Company for at least eight years
Caring for young employees	• Regularly organize tours for new comers each year • Gave wedding gifts to newlywed young employees • Launched the outdoor development camp activity themed by "Enjoying Youth with You" (青春同行·緣來有你) for young employees, providing a favorable platform for single youth to make friends

Kicking off Female Employee-Caring Activities on March 8, the "Women's Day"

Jiangsu Hansoh kicked off a series of activities showing care for female employees on March 8, the "Women's Day", including the wonderful baking activity with the theme of "Learning Baking to Celebrate Women's Day" (巧手學烘培・歡樂迎三八), and the activity themed by "Festival of My Goddess" (心中女神節) in three facilities of the production division, and sent holiday cards and DIY creative gift boxes to more than 300 female workers. The business division launched a "Fancy Sushi Show" (花式壽司秀) to provide a platform for female employees to exchange culinary skills.

Table of Key Quantitative Performance of Employment and Employee Care

Performance indicator	Unit	2019
Total number of employees	person	9,178
Number of male employees	person	6,440
Number of female employees	person	2,738
Number of contracted employees	person	9,175
Number of dispatched employees	person	0
Number of part-time employees	person	0
Number of rehired employees after retirement	person	3
Number of employees under 30 years old	person	4,566
Number of employees between 30 and 50 years old	person	4,523
Number of employees over 50 years old	person	89
Number of employees from Mainland China	person	9,174
Number of employees from Hong Kong, Macau, Taiwan and abroad	person	4
Female representation in senior officers	%	21.1
Labor contract signing rate	%	100
Social insurance coverage	%	100
Number of labor discrimination incidents	case	0
Number of incidents involving child labor or forced labor	case	0
Proportion of employees covered by collective bargaining agreements	%	85.21

4.2 Staff Health and Safety

Occupational health and safety management

In order to strengthen Environment, Health and Safety ("**EHS**") management, the Group has formulated EHS Management Objectives and Policies (EHS 管理目標、方針) and specific regulations in aspects of safety management, fire management, health management and hazardous chemical management to standardize the occupational health and safety management, and set up the safety committee to ensure the implementation of various occupational health and safety activities. Moreover, the Group takes the initiative in identifying occupational hazard factors (including productive dust, drug dust, chemical poison and physical factors), adopts preventive measures against occupational diseases, and conducts an internal health and safety audit annually and a health and safety risk assessment every three years, involving various aspects including the storage, reception and use of hazardous chemicals, workshop production, quality detection and external construction contractor management, so as to ensure the occupational health and safety of staff.

Occupational health and safety management policies

Safe production policy: "Safety first, people-oriented, prevention focused, technical innovation and continuous improvement" (安全第一，以人為本，預防為主，技術創新，持續改進)

Occupational health and safety management objectives

√ To eliminate personal deaths
√ To eliminate major environmental pollution accidents
√ To eliminate major equipment and fire accidents
√ To control the annual injury rate within 3‰
√ To eliminate occupational hazardous accidents and guarantee the workplace environment management to reach the standards
√ No criminal cases

Occupational health and safety management measures

Facility and equipment optimization

- The production equipment is sealed, and all reaction kettles of raw materials are equipped with negative-pressure suction valves. The solvents in the workshop are configured in the fume cupboard. The procedures such as the preparation, granulation, blending and tableting of solvents are conducted in separate compartments.
- Low-noise equipment is adopted. Automatic closing doors and buffers are provided among areas to reduce the cross pollution of noise.

Safety training and emergency drills

- Training plans on occupational health and safety are made.
- Trainings about mechanical injury, forklift safety, electricity safety and wearing labor protection articles are organized. Fire safety experts were invited to conduct training.
- Fire, occupational health and safety and emergency drills are conducted. Emergency evacuation drills are conducted regularly.

Provision of labor protection articles

- Protective articles for dust prevention, gas protection, noise prevention and vibration prevention are provided for staff with occupational disease risk.

Promotion of safety culture

- Activities including safe production month, occupational health publicity week and fire-fighting month are conducted regularly.
- A series of publicity week activities of the Code of Occupational Disease Prevention were held in 2019.
- Safety month activities are launched.

Meanwhile, we formulated Safety Management System for Outcomers (外來人員安全管理制度), put forward occupational health and safety requirements for external contractors such as pre-construction registration, admission procedures handling and construction site management, included contractor safety management into the occupational health and safety management performance of the Group, and carried out health and safety trainings for contractors to strengthen the occupational health and safety management of contractors.

Publicity week series activities of the Code of Occupational Disease Prevention (職業病防治法) in 2019

The 17th publicity week of the Code of Occupational Disease Prevention (職業病防治法) was from April 25, 2019 to May 1, 2019. The Safety Management Department (安全管理部) strengthened the publicity and implementation of the Code of Occupational Disease Prevention, conducting various activities such as first aid trainings, interpretation of physical examinations, massage experience and knowledge contests, and popularizing occupational disease prevention knowledge, in an effort to raise the occupational disease prevention awareness of all the staff.

Care for staff's mental health

We pay attention to the staff's mental health and hold mental health lectures for our staff, in order to enhance the mental health awareness of all our staff, and guide them to adjust their mentality and relieve their mental pressure.

Lecture on staff's mental health

To enhance the mental health awareness of all our staff, guide them to adjust their mentality correctly, relieve their mental pressure, eliminate the job burnout and deal with various personal relationships, Jiangsu Hansoh invited external experts to hold a mental health lecture themed by "Uncovering Your Emotional Veil" (揭開你的情感面紗) in September 2019, and nearly 100 staff representatives attended the lecture on site. The lecture was mainly focused on the topics such as mental health, mentality adjustment and personal relationship handling, to guide the staff to understand themselves correctly, cope with stress, deal with multiparty personal relationships and develop a healthy mentality.

Hazardous chemical management

As the Group's production and operation involves the use of alcohol, acetone, hydrochloric acid and other hazardous chemicals, the Group formulated Hazardous Chemical Management System (危險化學品管理制度) to stipulate the different processes of handling hazardous chemicals such as procurement, storage, transportation, stock-in & stock-out in detail, and complied with the management requirements of "acceptance, storage and reception by two persons with two locks and keys, as well as two ledgers" (雙人驗收、雙人保管、雙人領取、雙把鎖、雙本賬) during its transportation, reception and use, stock-in & stock-out and records of hazardous chemicals.

Table of Key Quantitative Performance of Staff Health and Safety

Performance indicator	Unit	2019
Number of contractors' industrial accidents	/	0
Number of safety training hours	Hour	72
Proportion of workplaces with staff health and safety risk assessment in all workplaces	%	100

4.3 Staff Training and Development

In order to promote staff development, we formulated systems including Training Management System (培訓管理制度), Internal Training Management Rules (內部培訓管理細則), External Training Management System (外出培訓管理制度) and Induction Training Management Rules (入職培訓管理細則), to standardize training contents and training methods. The content of staff training covers professional ethics, management ability, professional skills and operational skills.

On-the-job EMBA class

The Group sets up on-the-job Executive Master of Business Administration (EMBA) classes, in a bid to organize high-standard trainings for management personnel, cultivate and reserve core management talents for the Group and achieve common development of the staff and the Group. The fifth EMBA class began during the year of 2019, in which 45 employees participated. Through 12-day training courses, the staff's management ability had been improved systematically.

Table of Key Quantitative Performance of Staff Training and Development

Performance indicator	Unit	2019
Coverage of staff training	%	81.41
Training coverage of male employees	%	78.09
Training coverage of female employees	%	87.30
Training coverage of ordinary employees	%	96.97
Training coverage of middle management	%	35.40
Training coverage of senior management	%	66.67
Per capita training time of staff	Hour	39.51
Per capita training time of male employees	Hour	35.77
Per capita training time of female employees	Hour	45.35
Per capita training time of ordinary employees	Hour	46.71
Per capita training time of middle management	Hour	17.98
Per capita training time of senior management	Hour	14.28
Proportion of staff participating in regular performance and career development assessment	%	100

Note: Save for the proportion of staff participating in regular performance and career development assessment, sales personnel are not included in the calculation of the statistical data of other indicators in the above table.

5 RESPONSIBILITY OF GREEN DEVELOPMENT

"Green mountains and clear water are our invaluable assets" (綠水青山就是金山銀山). Our Group adheres to the concept of green development, takes measures for environmental management, energy conservation and emissions reduction from design of products and process, production to each process of waste disposal, and practically implements the concept of environmental protection, in a bid to achieve a win-win situation in self-development and environmental protection.

5.1 Environmental Management System

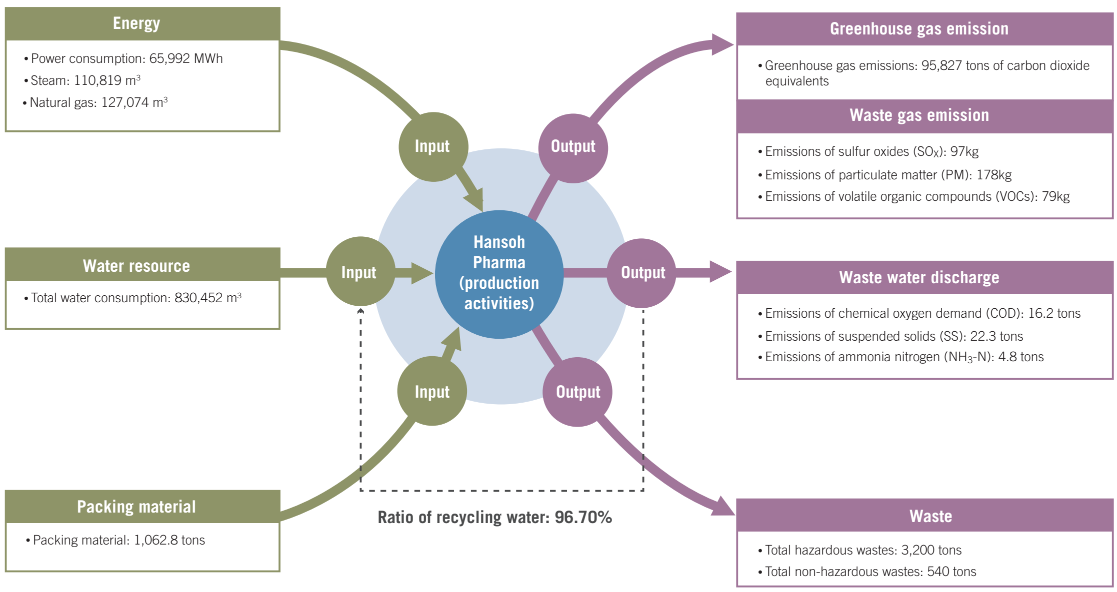
As a pharmaceutical enterprise, the Group's resource consumption is mainly concentrated on water, natural gas, electricity and steam. The main impact of the Group's operation on the environment is the consumption of energy and raw materials in the production and operation process. During the year of 2019, the Group's production activities did not inflict a material adverse impact on the environment and resources. On the contrary, the Group carries out environmental management under the concept of green development, has formulated the EHS Management Objectives and Policies (EHS 管理目標方針) to clarify the direction for various environmental management tasks, and has formulated specific management systems in terms of resources utilization, pollutant emissions, assessment on environmental protection of new projects. In addition, we enhance the environmental awareness and management capabilities of employees, ensure environmental compliance, and strive to reduce the impact of our operations on the environment by providing environmental management trainings.

Besides, Jiangsu Hansoh has established the Green Plant Management System (綠色工廠管理制度), and was rated as a National Green Plant (國家級綠色工廠) during the year of 2019.

Passing ISO 14001 environmental management system certification

Scope of certification: Administrative R&D Center of the Group (No.9 Dongjin Road), Pharmaceutical Production Division (No.5 Dongjin Road)

Analysis of impact on environment



Analysis on input & output of environmental management

Training on environmental management

In terms of training on environmental management, the Group makes EHS training plans for the Company and its functional departments on an annual basis, implementing the environmental responsibility system and environmental management system, so as to raise the staff's awareness of environmental management and the level of environmental management. The Group also formulates Environmental Emergency Response Plans (突發環境事故應急預案), which includes the plans and response procedures of regular environmental emergency drills carried out by the functional departments, to strengthen the awareness and capacity of staff and management for responding to environmental emergency on the site.

Environmental management of new projects

For new projects, we have strengthened the supervision of new projects in such aspects as construction environmental assessment, trial production emergency plan management and emission data self-monitoring pursuant to the systems such as Management System on Compliance of Newly Rebuilt and Expanded Projects (新改擴項目合規性管理制度), Laws and Regulations and Compliance Assessment Control Procedures (法律法規及合規性評價控制程序), Monitoring, Measurement and Performance Management Control Procedures (監視測量與績效管理控制程序), Identification and Assessment Control Procedures for Environmental Factors (環境因素識別評價控制程序), and Operational Control Procedures for Environmental Security (環境安全運行控制程序), in order to reduce the impact of new projects on the environment.

Measures for environmental management of new projects

Environmental impact assessment	Emergency plan management	Emission data self-monitoring
• Communicating the information on environmental impact assessment to the surrounding enterprises and residents through websites, community placards and newspapers, and including the recommendations of target personnel needing sensitive protection in the environmental impact assessment • Taking measures to dispose waste water, waste gas and wastes according to the results of environmental impact assessment • The Group has carried out environmental impact assessment for 4 projects during the year of 2019	• Formulating environmental emergency plans and carrying out emergency drills during the trial production period	• Establishing a "self-monitoring program" (自行監測方案) during the trial production period and regularly monitoring waste water, waste gas and noise during the trial production period and after the start of formal production according to the requirements of the self-monitoring program, and reviewing the monitoring results in a timely manner

5.2 Resource Utilization

Energy conservation

The direct energy used in the production and operation of the Group comprises of natural gas and solar energy, and indirect energy including purchased power and steam. The Group has established an energy management group, with specialists in functional departments managing energy consumption. The Group has also formulated three-level energy management objectives, namely the company level, the production base level and the level of functional departments of the production base, guiding the initiation of specific work in energy management based on the management systems such as Energy Management System (能源管理制度), Energy Assessment System (能源考核制度), Energy Polling System (能源巡檢制度), Energy Measurement Management System (能源計量管理制度), Energy Statistics Management System (能源統計管理制度), etc. Additionally, Jiangsu Hansoh has achieved online monitoring and management of power and steam via energy management systems such as power distribution monitoring and management system and online steam monitoring platform.

Passing GB/T23331 energy management system certification

Scope of certification: All activities of use, consumption and service management of power, steam and other energy involved in the manufacture of pharmaceutical products within the scope of the Administrative Center (No.9 Dongjin Road) and Pharmaceutical Production Division (No.5 Dongjin Road), including the whole energy-related process, i.e. the purchase and storage, processing and conversion, transmission and distribution and the final use in main production systems, auxiliary production systems and ancillary systems.

Energy management performance indicators and objectives

√ Comprehensive energy consumption per unit of GDP: <25kg of standard coal/RMB10,000

√ Comprehensive energy consumption per unit of industrial added value: <50kg of standard coal/RMB10,000

Energy management system

Energy management system	Details
Power distribution monitoring and management system	• Covering all production divisions • Monitoring the real-time power consumption, power load, power safety, power consumption analysis, statistical reports, etc. of both high and low voltage sides in the plant • Achieving effective management of power consumption in the plant
Online steam monitoring platform	• Covering the plant producing active pharmaceutical ingredients • Monitoring the trade settlement of steam and the steam quality in the plant • Implementing the management of the steam quality and consumption of main pipelines

Major energy conservation measures and results in 2019

Measures

- Replacing with efficient energy-saving pumps with a power saving rate of 34.12%
- Installing frequency conversion devices for power frequency air compressors with a power saving rate of 15.31%
- Improving the cleanliness and heat transfer efficiency of the condensers of refrigerators
- Choosing the cutting-edge magnetically supported chiller
- Transforming the heat pipe of air conditioners and installing heat pipe and air-to-air energy recovery equipment for air conditioner decontamination system, with an annual saving on electrical charge of RMB19,749 through heat pipe transformation
- Centralizing the recovery of the heat from steam condensate for sewage disposal, to reduce steam consumption

During the year of 2019, Jiangsu Hansoh participated in the "Opening Ceremony of 2019 Lianyungang Energy Saving Publicity Week" (2019年連雲港市節能宣傳周啟動儀式) organized by the Lianyungang Municipal Bureau of Industry and Information Technology (連雲港市工信局), and exhibited high-quality projects such as the rubber ball cleaning equipment, magnetically supported chiller and energy storage power station to enterprises and public institutions.

Water consumption reduction

The Group uses municipal water and has not found any problems on getting suitable water sources. Its energy management group manages the use of water resources under the energy management system, sets objectives for water resource use, and formulates the Bathroom Management System and the Standards for the Use of Water (浴室管理制度), Electricity and Steam (水電汽使用規範), to stipulate the requirements for water conservation. Also, the Group raises the awareness of water conservation of employees by providing trainings and posting publicity signs of "Save Water" (節約用水) and "Regulate Water Use" (用水規範) at eye-catching places such as chemical industrial areas and office areas. Jiangsu Hansoh has been awarded the title of advanced unit as a Water-saving Enterprise in Jiangsu Province.

Water resource management performance indicators and objectives

√ Water withdrawal for tablets per unit of product: ≤0.50 m^3/10,000 tablets
√ Water withdrawal per unit of output value of RMB10,000: 5% annual decline
√ Recycle rate of industrial water: ≥75%

Major water conservation measures and results in 2019

Measures	Results
• Reused the waste water from the purified water system, with the waste water utilization rate remaining above 70%: √ Recovered the waste water to the raw water storage tank via double-pass reverse osmosis water treatment equipment, and recovered the waste water to intermediate storage tank or raw water storage tank via continuous electro-de-ionization (EDI) for reuse √ Balanced the quality of purified water with the total amount of recovered water to maximize the use of waste water • Recycled chilled water and cooling water, with the recycling water consumption of 10 refrigeration systems being 19,723,300 m^3 during the year of 2019: √ Recycled cooling water: supplementing through the circulation pipeline → transporting to the cooling tower → cooling before entering the condenser of the refrigeration unit → entering the cooling tower √ Recycled chilled water: supplementing through the circulation pipeline → transporting to each point of use → entering the evaporator → entering the cooling tower	• Water consumption per unit of revenue reduced by 17% • Water recycle use rate of 96.70%

Reducing the use of packing materials

The biodegradable cartons, instructions and labels used in the packaging of our products are all renewable resources, and the use of packing materials can be reduced by increasing the packing size.

Table of Key Quantitative Performance of Resource Utilization

Performance indicator	Unit	2019
Total power consumption	MWh	65,992
Power consumption per unit of output	MWh/RMB10,000	0.19
Total steam consumption	m^3	110,819
Steam consumption per unit of output	m^3/RMB10,000	0.28
Total natural gas consumption	m^3	127,074
Natural gas consumption per unit of output	m^3/RMB10,000	0.32
Total water consumption	m^3	830,452
Water consumption per unit of output	m^3/RMB10,000	2.12
Water consumption per unit of products	m^3/10,000 tablets	4.81
Water consumption by source: municipal water	m^3	749,653
Total amount of recycled water	m^3	23,995,892
Proportion of total amount of recycled and reused water in total water consumption	%	96.70%
Gasoline consumption of owned vehicles	liter	134,279.87
Diesel consumption of owned vehicles	liter	226,429.65
Consumption of packing materials	Ton	1,062.8
Consumption of packing materials per unit of products	kg/10,000 tablets	6.16

Note: The statistical caliber for key quantitative performance of resource utilization is of Jiangsu Hansoh.

5.3 Emission Management

Waste management

The hazardous wastes generated in the manufacturing process of products of the Group mainly include waste residue, waste activated carbon/activated carbon fiber, waste liquid, waste gas condensate, sludge at sewage treatment stations, and contaminated wastes and abandoned drugs including waste packaging and filter. The non-hazardous wastes are mainly uncontaminated waste packaging, gloves and waste cartons.

The Group has formulated management systems such as the Pollutants Discharge or Emission Management (污染物排放管理), API Waste Management (原料藥廢棄物管理), and Management of Solid Waste of Preparation (制劑固體廢棄物管理) to adopt compliant and harmless disposal methods for different types of hazardous wastes, and to recycle the recyclable waste solvent and entrust units with hazardous waste disposal qualifications to burn or recycle other non-recyclable solvent. The environmental sanitation department of the plant is entrusted with the uniform disposal of non-hazardous wastes.

At the same time, we reduce the emission of non-hazardous wastes by degrading the use of non-hazardous wastes, and slash the emission of hazardous wastes by solvent recovery and establishing independent recovery systems in key waste generation workshops.

Management of waste water discharge and waste gas emission

The main monitoring indicators of waste water generated in the production and operation of the Group include COD, SS, ammonia nitrogen, etc. We have formulated documents in respect of waste water and waste gas management such as Environmental Protection and Management (環境保護管理), Operating Instruction of 800t Sewage Station (800t污水站運行操作), Operating Instruction of Activated Carbon Waste Gas Treatment System (活性炭廢氣處理系統操作), and Operating Instruction of Regeneration of Activated Carbon Fiber Regenerated Waste Gas Treatment System (活性炭纖維再生廢氣處理系統操作). We also reduce the impact on the environment through emission reduction by using waste water and waste gas disposal equipment and taking measures for reduction of waste water discharge and waste gas emission.

Major waste water discharge and waste gas emission reduction measures and results in 2019

Emission type	Disposal method	Discharge or emission reduction measures
Waste water	High gravity + mechanical vapor recompression (MVR) + FENTON + up-flow anaerobic sludge bed (UASB) + anaerobic-oxic process (A/O) + secondary settling tank	• Upgraded and transformed sewage disposal equipment: √ Increased the number of air floatation devices to reduce the damage of COD and oily matters to biochemical treatment units √ Transformed the oxic aeration system to reduce the damage of violent aeration to activated sludge • Built a sewage treatment station with an efficiency of 1,800 tons/day
Waste gas	Spray washing, activated carbon/activated carbon fiber adsorption, activated carbon fiber on-line desorption/centralized desorption and regeneration	• Transformed the waste gas treatment facilities of the sewage treatment station to increase the air volume • Cooperated with a Class A design institute of waste gas to run pilot projects in the typical production waste workshop by upgraded spraying, activated carbon fiber adsorption and photocatalytic oxidation

Management of greenhouse gas emission

The Group has formulated management documents such as Greenhouse Gas Management Procedures (溫室氣體管理程序), Energy Management Manual and Operational Control (能源管理手冊) for Energy Management (能源管理運行控制) according to the ISO 14064 Standard, and has carried out the verification of greenhouse gas emission and the accounting for carbon footprint of our products at No.5 Dongjin Road and No.9 Dongjin Road, Lianyungang. We identify direct and indirect greenhouse gas (GHG) emissions from raw material purchase, production activities, refrigeration equipment, shipment of finished products, office activities, staff's commuting vehicles, domestic sewage, natural gas for canteen and other facilities/activities, and verify the accuracy of activity level data and emission factors.

During the year of 2019, we implemented a number of energy-saving improvements to reduce energy consumption. In the meantime, the Group replaced steam and power resources with clean energy by using solar photovoltaic power stations, solar water heaters and outdoor solar fly-killing lamps to reduce greenhouse gas emissions.

Table of Key Quantitative Performance of Pollution Prevention and Control

Performance indicator[1]	Unit	2019
Total waste water discharge	m^3	380,799
Discharge amount of waste water per unit of output	m^3/RMB10,000	0.97
Emissions of suspended solids (SS) (in waste water)	ton	22.3
Emissions of ammonia nitrogen (NH_3-N) (in waste water)	ton	4.8
Emissions of chemical oxygen demand (COD) (in waste water)	ton	16.2
Emissions of sulfur oxides (SO_x)	Kg	97
Emissions of particulate matter (PM)	Kg	178
Emissions of volatile organic compounds (VOCs)	Kg	78.22
Total hazardous wastes generated	ton	3,200
Emissions of hazardous wastes per unit of output	kg/RMB10,000	8.15
Amount of expired or discarded medicines generated	ton	31
Total non-hazardous wastes generated	ton	540
Emissions of non-hazardous wastes per unit of output	kg/RMB10,000	1.38
Amount of non-hazardous wastes by disposal method: recycled	ton	540
Total greenhouse gas emissions[2]	Ton of carbon dioxide equivalent	95,827
Greenhouse gas emissions in scope	Ton of carbon dioxide equivalent	3,805
Greenhouse gas emissions in scope	Ton of carbon dioxide equivalent	92,022
Greenhouse gas emissions per unit of output	Ton of carbon dioxide equivalent/RMB10,000	0.24

Notes:

1. The statistical caliber of key quantitative performance of emission management is of Jiangsu Hansoh.

2. The greenhouse gas emission data during the year of 2019 includes the data of No.5 Dongjin Road, No.9 Dongjin Road, No.8 Kaitai Road and No.8 Lushan Road in Lianyungang, Jiangsu.

6 COMMUNITY AND CHARITY

With the mission of "serving society and building up health" (服務社會、營造健康), the Group is committed to drug R&D and innovation to provide more and better drugs to benefit patients. In addition, the Group has proactively carried out charitable activities, including medical assistance, student aid, poverty alleviation, disaster relief, etc., so as to achieve the common development and prosperity between the enterprise and society and contribute to society in good faith.

6.1 Increase in Medical Treatment Availability

Drug R&D and Innovation

Acceleration of the launch of new drugs and improvement of R&D efficiency are not only the foundation for the Group's sustainable development, but also an important way for the Group to benefit patients and society. In response to the initiative of "Healthy China", the Group continuously increases the investment in R&D, accelerates the development of safer, more effective and more economical drugs, conducts consistency evaluation for generic drugs, and improves the clinical diagnosis and treatment and the drug accessibility for patients. The R&D involves major therapeutic areas (CNS disease, oncology, anti-infectives and diabetes).

The Group has established development centers and production bases in Lianyungang, Jiangsu, Zhangjiang, Shanghai and Changzhou, Jiangsu respectively, forming a comprehensive R&D system which includes pharmaceutical research, preclinical study, clinical study and registration application. The Group has recruited a number of high-level domestic and foreign S&T talents, established key technological innovation teams, and vigorously attracted domestic and foreign R&D talents through Academician Workstation (院士工作站), National Post-doctoral Research Station (國家博士後科研工作站), National and Provincial Talent Introduction Program (國家和省級人才引進計劃), and Young Scientist Training Program (青年科學家培養計劃). The Group has stipulated the Expert Management System for the Review of Drug Registration Application Materials of Research Institutes (研究院藥品註冊申報資料審評專家管理制度) to strengthen the standardized management on outstanding scientific research and technology talents, and established incentive systems such as Research Institute Project Award Scheme (研究院項目獎方案), Measures for the Management of Incentives for Patent Inventors (專利發明人獎勵管理辦法) and Housing Subsidy System for High-level Talents (高層次人才住房補貼制度), to encourage innovation among employees. Besides, The Group has proactively built an innovation platform with various research institutes to make full use of external superior resources and improve the innovation capacity of the enterprise.

Major R&D Achievements in 2019

- For innovative drugs, two national class 1.1 innovative drugs, Fulaimei (polyethylene glycol loxenatide for injection) and Hansoh Xinfu (flumatinib mesylate), were approved for marketing, which were indicated for the treatment of Type-II diabetes and chronic myelogenous leukemia respectively

- For generic drugs, five generic drugs were approved for marketing, four of which being first-to-market generic drugs

Fulaimei (polyethylene glycol loxenatide for injection) giving hope to patients with Type-II diabetes

In May 2019, Fulaimei (polyethylene glycol loxenatide for injection), a national class 1.1 innovative drug, was approved for marketing after 12 years of scientific and technological research conducted by the Group. The product is the first self-developed long-acting GLP-1 receptor agonist in China. Patients need to inject once a week only and the hypoglycemic effect appears in 1 hour after the injection, with the significantly increased control rate of blood glucose and the lower rate of adverse reactions. It greatly reduces the inconvenience and pain suffered by patients due to high-frequency medications, offering an alternative medication that is more effective, safer and more convenient for patients with Type-II diabetes.

Assistance in the Improvement of Primary Medical Care

The Group has established a service system covering all hospitals at county level, where the services involve the whole process from pharmaceutical production, commercial distribution, medical institutions (pharmacies) to patients. Moreover, the Group has carried out trainings for physicians in district and community hospitals in many places and offered free clinical services and free medicines in communities, improving the accessibility of medical treatment.

Implementing academic activities for western China and promoting the development of primary medical care

In view of the underdeveloped regions in central and western China, the Group promotes the development of primary medical care by upgrading the hardware facilities of hospitals, promoting the cultivation of medical personnel and strengthening the construction of information system. During the year of 2019, Jiangsu Hansoh launched the “Chang’an Initiative” (長安行動) in Xi’an and other cities, with the theme of “Xin Thinking and Precise Treatment” (昕思維，精準治), and conducted circular trainings of the precise treatment of chronic myeloid leukemia for leading doctors in central and western China to improve the diagnosis and treatment of related diseases in primary hospitals.

Promoting the Development of the Pharmaceutical Industry

The Group vigorously participates in the formulation of national drug standards and enhance communications with peers through industry associations to promote industry development. During the year of 2019, the Group participated in the discussions and gave feedback on mechanisms such as "dynamic adjustment of the National Reimbursement Drug List" (國家醫保藥品目錄動態調整) and "drug purchase by category in drug purchase by bidding" (藥品招標採購的藥品分類採購) held by China Pharmaceutical Innovation and Research Development Association (中國醫藥創新促進會), China Quality Association for Pharmaceuticals (中國醫藥質量管理協會) and other industry associations. The Group offered more than 20 suggestions, more than 10 of which were adopted. Besides, the Group was in charge of the formulation of 7 national standards on polyethylene glycol loxenatide for injection, linezolid for injection, fosaprepitant dimeglumine for injection, flumatinib mesylate, apixaban tablets, vildagliptin tablets and canagliflozin tablets, etc.

CSP Hansoh Depression Lecture

With the accelerating pace of life and increasing pressure from work and environment, the number of domestic and overseas patients with depression are generally on the rise. According to the latest statistics released by the World Health Organization (WHO), there are approximately 322 million patients with depression globally, and it is conservatively estimated that the number of patients with depression in China exceeds 58 million.

During the year of 2019, the Group invested approximately RMB1 million to jointly hold the "CSP Hansoh Depression Lecture" (CSP·豪森抑鬱學院) with the Chinese Society of Psychiatry (CSP) (中華醫學會精神分會). We invited domestic and overseas experts twice to give lectures to physicians in the field of psychiatry across China for the purpose of enhancing their understanding of patients with depression and their diagnosis and treatment ability. More than 600 physicians benefited from the lectures.

China-EU Summit Forum on Depressive Disorder (中歐抑鬱障礙高峰論壇) held in June 2019

Forum on Standardized Treatment of Depressive Disorder (抑鬱障礙規範化治療論壇) held in September 2019

6.2 Active Contribution to Society

Public Welfare

The Group firmly believes that enterprises and society are a community with close interdependence and mutual benefit. Based on the characteristics of the industry, and by focusing on medical help, student aid and poverty alleviation, the Group proactively carries out charity activities to facilitate the resolution of social issues and achieve the joint development with society. During the year of 2019, the total amount of funds and products donated by the Group to society was RMB38.6608 million, of which approximately RMB8.0041 million was for targeted poverty alleviation.

Non-profit Student Aid: Education Development Fund of Xuzhou Medical University

During the year of 2018, in order to promote the education for medical talents, the Group set up an education development fund at Xuzhou Medical University (徐州醫科大學) to fund and reward excellent students in the medical field from poor families, and sent management personnel with strong foundation in theory and rich experience in practice to give special lectures to students. During the year of 2019, the Group donated a total of RMB1 million to more than 350 students.

A strategic cooperation agreement signed with Xuzhou Medical University

A lecture given by the management personnel of the Company to the "Hansoh Class" (豪森班) of Xuzhou Medical University

Communication with Communities

The Group attaches importance to the communication and interaction with communities. During the year of 2019, the labor union of Jiangsu Hansoh and the management committee of the development zone where Jiangsu Hansoh is located built a caring platform through which employees conducted charity sale activities, helping 30 impoverished families in the development zone realize their "tiny wishes" (微心願) and raising over RMB27 thousand at the fifth charity sale activity "Wealth for All" (福滿人間). In addition, the art troupe of Jiangsu Hansoh cooperated with the municipal cultural units to reach out to the communities and promote the civilization construction of the communities. The band and the dance crew of the Company's art troupe participated in the "Mass Stage" (老百姓大舞台) and the art and cultural performance themed by "Beautiful Homes in Changxu Community Jointly Built by Community and Enterprise" (昌圩社區社企聯動攜手並進共度美好家園).

In July 2015, the labor union of Jiangsu Hansoh, Youth League Committee and Youth Federation jointly proposed to establish a volunteer association. At the end of 2019, there were 486 registered volunteers who provided voluntary services of 680 person-times and 4,000 hours during the year.

One hundredth anniversary of "The May 4th Movement"- Jiangsu Hansoh's "perseverance" event

On 26 April 2019, to commemorate the 100th anniversary of "The May 4th Movement", Jiangsu Hansoh organised the healthy "perseverance" event (健康"毅"行活動). More than 300 young volunteers actively supported the construction of Lianyungang as a civilized city through activities such as signing initiatives, distributing leaflets and picking up garbage in scenic areas.

Jiangsu Hansoh's "perseverance" event for young people to commemorate the 100th anniversary of "The May 4th Movement"

Table of Key Quantitative Performance of Community and Charity

Performance Indicator	Unit	2019
Money donated to society	RMB0'000	3,866.08
Investment in targeted poverty alleviation	RMB0'000	800.41
Number of volunteers	Person-time	680
Duration of volunteer service	Hour	4,000

Note: The statistical caliber for the quantitative performance of community and charity is of Jiangsu Hansoh.

7 INDEX TO ESG REPORTING GUIDE OF THE HKEX

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KPI A1.2	Greenhouse gas emission in total (in tons) and where appropriate, intensity (e.g. per unit of production volume, per facility)	Emission Management
KPI A1.3	Total hazardous waste produced (in tons) and where appropriate, intensity (e.g. per unit of production volume, per facility)	Emission Management
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KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced	Resource Utilization

Aspects, General Disclosures and Key Performance Indicators	Description	Section
Aspect A3. The Environment and Natural Resources		
General Disclosure A3	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environmental Management System
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Environmental Management System
Major Scope B. Social Employment and Labor Practices		
Aspect B1. Employment		
General Disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Protection and Caring for Employees' Rights
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Protection and Caring for Employees' Rights
Aspect B2. Health and Safety		
General Disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Staff Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted how they are implemented and monitored	Staff Health and Safety

Aspects, General Disclosures and Key Performance Indicators	Description	Section
Aspect B3. Development and Training		
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Staff Training and Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management, etc.)	Staff Training and Development
KPI B3.2	The average training hours completed per employee by gender and employee category	Staff Training and Development
Aspect B4. Labor Standards		
General Disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor	Protection and Caring for Employees' Rights
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor	Protection and Caring for Employees' Rights
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Protection and Caring for Employees' Rights
Major Scope B. Social Operating Practices		
Aspect B5. Supply Chain Management		
General Disclosure B5	Policies on managing environmental and social risks of the supply chain	Supplier Management
KPI B5.1	Number of suppliers by geographical region	Supplier Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier Management

Aspects, General Disclosures and Key Performance Indicators	Description	Section
Aspect B6. Product Responsibility		
General Disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and method of redress	Quality Service
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Product Quality Management
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Quality Service
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Management and Protection of Intellectual Property Rights
KPI B6.4	Description of quality assurance process and recall procedures	Product Quality Management
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Quality Service
Aspect B7. Anti-corruption		
General Disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-corruption and Business Ethics
KPI B7.1	Number of closed legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Anti-corruption and Business Ethics
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption and Business Ethics
Aspect B8. Community Investment		
General Disclosure B8	Policies on community engagement to understand the needs of the communities where we operate and to ensure that our activities take into consideration the communities' interests	Community and Charity
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Community and Charity
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Community and Charity