康哲®

康哲药业 CHINA MEDICAL SYSTEM

2019 ANNUAL REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE:867)

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong

Mr. CHEN Hongbing

Ms. CHEN Yanling

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry (resigned on 31 March 2020)

Mr. WU Chi Keung

Mr. LEUNG Chong Shun

Ms. LUO, Laura Ying (appointed on 31 March 2020)

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan

Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)

Mr. CHEUNG Kam Shing, Terry (resigned on 31 March 2020)

Mr. LEUNG Chong Shun

Ms. LUO, Laura Ying (appointed on 31 March 2020)

Remuneration Committee Members

Mr. LEUNG Chong Shun (Chairman)

Mr. CHEUNG Kam Shing, Terry (resigned on 31 March 2020)

Mr. WU Chi Keung

Ms. LUO, Laura Ying (appointed on 31 March 2020)

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)

(resigned on 31 March 2020)

Ms. LUO, Laura Ying (Chairman)

(appointed on 31 March 2020)

Mr. LAM Kong

Mr. WU Chi Keung

Mr. LEUNG Chong Shun

Auditors

Deloitte Touche Tohmatsu

Registered Public Interest Entity Auditors

Principal Bankers

China Merchants Bank, Shenzhen Branch

Standard Chartered Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

Industrial and Commercial Bank of China, Shenzhen Branch

Citibank (China) Co., Ltd., Shenzhen Branch

Registered Office

Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

Unit 2106, 21/F

Island Place Tower

510 King's Road

North Point

Hong Kong

Principal Contact Address in the PRC

6F - 8F, Block B, Majialong Chuangxin Building

198 Daxin Road

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Shenzhen 518052

Guangdong Province

The PRC

Branch Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17/F, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

Stock Code

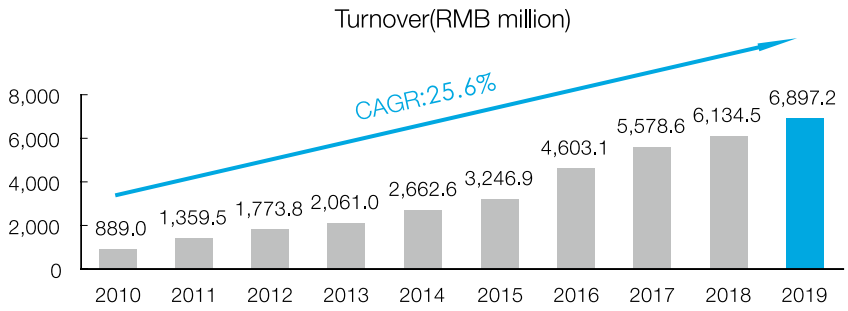
867

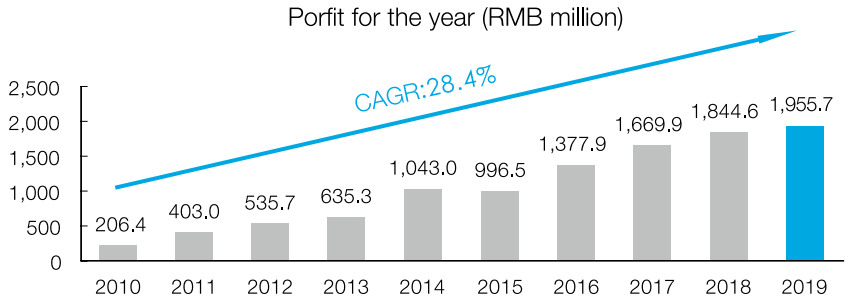
Company's Website

www.cms.net.cn

- urnover up 11.8% to RMB6,073.6 million (2018: RMB5,433.4 million); excluding the effect of the "two-invoice system", turnover up 12.4% to RMB6,897.2 million (2018: RMB6,134.5 million)
- Gross profit up 16.1% to RMB4,546.3 million (2018: RMB3,916.9 million); excluding the effect of the "two-invoice system", gross profit up 15.4% to RMB4,173.3 million (2018: RMB3,616.8 million)
- Normalized profit for the year* up 23.4% to RMB2,277.1 million (2018: RMB1,844.6 million)
- As at 31 December 2019, the Group's bank balances and cash amounted to RMB1,365.0 million while readily realizable bank acceptance bills amounted to RMB414.0 million
- Proposed final dividend of RMB0.1271 per share, bringing the total dividend for the year ended 31 December 2019 to RMB0.3154 per share, representing an increase of 6.2% over last year (2018: final dividend of RMB0.1434 and total dividend of RMB0.2970 per share)

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





* Normalized profit for the year excluding the income tax impact arising from the change in income tax policy applicable to a subsidiary of the Group for the Reporting Period.

Consolidated Statement of Financial Position Highlights

	As at 31 December				
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	6,397,583	9,791,593	10,148,843	10,506,452	11,170,976
Total liabilities	1,045,115	3,523,769	2,820,586	2,102,377	1,654,844
Net assets	5,352,468	6,267,824	7,328,257	8,404,075	9,516,132

CHAIRMAN'S STATEMENT

Dear shareholders and partners,

2019 is a significant year for China Medical System Holdings Limited (the "Company"). The Company actively and deeply implemented the strategic deployment with innovative products as its core, and has achieved positive results that gathered strength and well prepared the Company for future long-term development. At the same time, the synergy of the forward-looking trend judgment and strategic deployment, the professional and efficient academic promotion system, and the existing product portfolio with sufficient differentiation advantages empowered the Company with steady growth. On behalf of the Board of Directors of the Company (the "Board of Directors"), I would like to sincerely thank all our supportive shareholders and partners, and hardworking staff. I take pleasure in presenting you the Annual Report of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2019 (the "Reporting Period").

Innovation Strategy Achieved Initial Results

Under the big reform of pharmaceutical policies, innovation has become the core competitive edge for the future development of Chinese pharmaceutical companies. Only by constantly bolstering innovation to improve product competence can a pharmaceutical company achieve long-term progress. However, the enhancement of product competence not only relies on in-house R&D, it also requires strong capabilities in finding high-quality products with differentiation advantages and therapeutic efficacy globally, investing and participating in the management of R&D companies, and coordinating domestic and overseas resources to promote the success of R&D projects. CMS has already prepared in advance and actively embraced the critical period of rapid transformation. During the Reporting Period, the Group acquired several innovative products through equity investment or licensing-in by leveraging its channel advantages in screening and deploying international products accumulated over the years and the perspicacious discernment to converge global innovation resources. These products are in different innovation levels and treatment fields and are of enormous market potential to fulfill the unmet medical needs in China. In 2019, the Group placed a major focus on innovative products that have completed clinical trials with marketing approval overseas, as well as those with overseas marketing approval being under review. The registration and launching of these products in China are expected to speed up, so as to enhance the efficiency of the Group's investment return. In the field of innovation, the Group did not blindly pursue industry hot spots. The Group instead paid more attention to the academic differentiation, superior efficacy, and market prospects between the targeted products and existing therapeutic drugs. As at 31 December 2019, the Group had 18 innovative products in the pipeline, five of which have been launched in the U.S., EU and/or other countries or regions. The Group has been actively pushing forward the registration related work of these innovative products in the China market to accelerate the landing of the innovative achievements.

Deployment in Generic Clusters with Competitiveness to Capture Incremental Market

Complex generic drugs are difficult to be imitated with traditional methods because of technical barriers in their formulation or delivery system, resulting in less competition and higher returns. To improve accessibility and provide patients with new treatment options, the Group has given special attention to complex generic drugs. Also, under the policy implementation of the National Volume-based Procurement, the competition pattern of generic drugs in the China market has been reshaped. Every reform breeds new opportunities. The Group has also paid attention to and been arranging deployment in those quality generic clusters which only have few competitors under the same chemical names that have passed the consistency evaluation. These quality generic clusters also are at affordable cost and have guaranteed supply. Hopefully, the Group can keep a dynamic replacement and iteration for these quality generic clusters. The Group believes that competitive and quality generic clusters will help the Group to compete in the National Volume-based Procurement, capturing the incremental market with a relatively light investment. During the Reporting Period, the Group collaborated strategically with the globally well-known generic pharmaceutical companies and obtained the Chinese licensing rights of 11 generics with broad market potential and sufficient competitiveness, including one complex generic drug with high imitation barriers. The Group has been working on the China registration related work for these generic products to launch in China.

Sound and Compliant Promotion System Facilitating Steady Growth of Existing Products and Escorting Future Commercialization of Innovative Products

CMS has grown rapidly with the support of its branded originals and exclusive products and deeply engaged in the Chinese pharmaceutical market with academic promotion. The Group has built an efficient, compliant, and professional promotion system, and a comprehensive promotion network that covers all hospital departments. Based on the patient-oriented conception, the Group has constructed an innovative promotion model combining the Internet and new media, enhanced the digital promotional tools, and built a product line-divided promotion model, with proof in evidence-based medicine of the products and solid application solutions as the cornerstone. During the Reporting Period, the Group's nine major branded products with academic value in cardio-cerebrovascular, digestive, ophthalmological, and dermatological fields continued to drive a steady performance growth. These fully demonstrated the hardcore capability of the sound and compliant professional promotion system of the Group, which has created a lasting growth engine for branded drugs and laid a solid foundation for the successful commercialization of future innovative drugs. While expanding the breadth and depth of market coverage, the Group has also sought to diversify its growth model. The in-depth deployment of the retail market fully prepared the Group to undertake the opportunity of the prescription drug outflow brought by policies.

Deepening the Innovation Strategy with "Search and Development" as the Core

Looking forward, the Group will continuously strengthen its product competence by accelerating the search of innovative products from the global market to continually enrich the innovative product clusters. Meanwhile, the Group will actively push forward products registration and development in the China market and expects to launch the innovative products successively in the near future. CMS will live up to its mission and benefit Chinese patients and families by deploying more drugs with sufficient differentiation advantage, therapeutic efficacy, and affordable price for the ordinary people. In the meantime, the existing product portfolio and highly competitive generic drug clusters of the Group will synergize to support its core innovation strategy with abundant capital and resources, as to ensure the momentum of a sustainable innovation development. Equipped with a compliant, professional promotion system and promotion network most suitable for innovative products, the Group will continuously duplicate the successful sales model, and march on the Blue Ocean market of innovative drugs with prominent market potential. While maintaining good growth, the Group will actively participate in philanthropy and charity and always be attentive to the implementation of corporate social responsibility. In the future, the competition in the pharmaceutical industry will be the competition among large enterprises. CMS will persist to build up its core strength and skills to improve the comprehensive competitiveness. We firmly believe that the Chinese pharmaceutical industry, having gone through a transformation, will keep on developing flourishingly. It is now the best era for pharmaceutical enterprises which respect the lives of patients, value product quality, dare to change, and embrace innovation!

Chairman
Lam Kong
Hong Kong, China
31 March 2020

Business Review

In 2019, the implementation and progress of various policies, such as the proceeding of the National Volume-based Procurement policy, the release of the new version of National Reimbursement Drug List ("NRDL"), the revision and implementation of the *Pharmaceutical Administration Law of the People's Republic of China*, the release of the First Batch of the National Key Monitored Drugs for the Rational Use, and the announcement of the List of Pilot Cities for Diagnosis Related Group (DRG) Payment Program, signified that the progress of China pharmaceutical reform has entered into a crucial phase. With full of fighting spirits, the Group actively embraced a new round of opportunities and critical stage of development following the reform of China pharmaceutical industry. With the benefit of its own resources and experiences in global products development for more than two decades, as well as its unique vision and market reputation, the Group has achieved a number of strategic cooperation with excellent overseas pharmaceutical companies. By taking advantages of rich innovative products resources and advanced innovative technology platforms globally, the Group expected to deploy innovative products with differentiation advantages that can provide new treatment options for Chinese patients. On the other hand, led by its forward-looking strategic vision, the Group formulated its product strategy in response to market trend based on medical needs of Chinese doctors and patients. Also, the Group further explored the evidence-based medical evidence and consolidated academic differentiation advantages of existing products, expanding their academic influences, which helped the Group achieve a steady growth during the Reporting Period.

I. Innovative Research and Development

The Group considers that the core development driving force of a pharmaceutical company comes from its product competence. A product cluster with good efficacy and high cost-effectiveness is the impetus for sustainable development of a pharmaceutical company. The Group has continually persisted in the deployment of innovative products as its core development strategy. With the light-asset model, the Group introduced innovative product clusters from around the world in multiple research fields with relatively high innovation level and enough potential to fill the gap of China pharmaceutical market, accelerating the enhancement of the Group's product competence. By making equity investments in overseas R&D companies, the Group capitalized on their professional R&D teams which possess rich research experiences in multinational pharmaceutical companies as well as their advanced technology platforms, to deploy innovative products at clinical stage and acquire the priority rights to choose innovative products in future incubation, facilitating the long-term development of innovative product clusters. At the same time, the Group proactively carried out in-depth cooperations with leading overseas pharmaceutical companies, to accelerate the deployment of innovative products by way of licensing-in, establishing the mutually beneficial and win-win strategic cooperation with joint accumulation of the driving force for the future development.

As complex generic drugs are difficult to be imitated with traditional methods due to the technology barriers of their formulation or delivery system, the Group has given special attention to complex generic drugs to enhance the accessibility of drugs among Chinese patients. The Group continued the selective introduction of complex generic drugs and generic clusters with market competitiveness from matured overseas pharmaceutical companies using its global resources accumulated over the years and forward-looking product screening capability. The Group will remain the dynamic supplement and iteration of generic clusters with market competitiveness to seize the incremental market through participating in the National Volume-based Procurement.

1. Deployment and Development of Innovative Products

The Group has deployed various innovative products at different innovation levels and development stages mainly via equity investments in overseas R&D companies or licensing-in, which ensured a constant supply of innovative products to the market in short, mid- and long-terms. During the Reporting Period, the Group acquired nine innovative products with sufficient differentiation competitive edges, which can fulfill unmet clinical needs in China market, expanding the number of the Group's innovative products to 18. Among them, five products have been launched in the U.S., the EU and other countries or regions. The Group will customize the registration and launch strategy for each product based on individual characteristics, to accelerate the launch progress in China.

In-licensing

During the Reporting Period, key innovative products deployed by way of licensing-in include the following:

An Innovative Product In-licensed from Sun Pharma -- Cyclosporine A, 0.09% Eye Drops

In June 2019, the Group through its wholly-owned subsidiary signed a license agreement with a wholly-owned subsidiary of Sun Pharmaceutical Industries Ltd. ("Sun Pharma"), a global pharmaceutical company focusing on branded innovative products and complex generics, and gained an exclusive license with the right to grant sublicenses under Sun Pharma's intellectual property rights and regulatory documentation to develop and commercialize its product Cyclosporine A, 0.09% Eye Drops in Greater China (Mainland China, the Hong Kong Special Administrative Region ("HK SAR"), the Macau Special Administrative Region ("Macau SAR") and Taiwan ("TWN") included) ("Greater China"). The initial term of the agreement shall be 15 years from the first commercial sale of the product, and may be extended for additional 3-year increments repeatedly if certain conditions specified in the agreement are met.

Cyclosporine A, 0.09% Eye Drops is a nanotechnology enabled-formulation in a clear, preservative-free, aqueous solution. Developed by Sun Pharma, it is the globally first patent protected innovative 0.09% cyclosporine ophthalmic solution using nanotechnology for the treatment of increasing tear production in patients with keratoconjunctivitis sicca (dry eye). In August 2018, the drug was approved by the the U.S. Food and Drug Administration ("FDA") under CEQUA™ brand name for commercialization in the U.S. market. Currently, although various symptom alleviating agents are available in the market, such as artificial tears, few satisfactory treatment options are in practice. In addition, due to the historic challenges of making an optic formulation of this agent at a suitable concentration without increasing side effects, the clinical treatment options of ophthalmic cyclosporine are still limited. Cyclosporine A, 0.09% Eye Drops uses a unique, first-in-class vehicle in which the cyclosporine molecules are surrounded by tiny structures called "micelles", which allows for greater tissue penetration and gentle side effect profile in a high concentration. In recent years, due to the aging of the population and multiple factors related to environmental and lifestyle changes, the prevalence of dry eye has escalated globally. Among this, the incidence of dry eye in China is 21%-30%, of which moderate-to-severe patients account for 40%, about 118-168 million patients. Cyclosporine A, 0.09% Eye Drops has the potential to fulfill the current unmet clinical needs of the patients with dry eye, providing them with a new satisfactory treatment option. During the Reporting Period, the Group actively worked on the regulatory application and other related work of the product in China.

An Innovative Product In-licensed from Sun Pharma -- Tildrakizumab (A Monoclonal Antibody Specifically Targeting Interleukin-23(IL-23))

In June 2019, the Group through its wholly-owned subsidiary signed a license agreement with a wholly-owned subsidiary of Sun Pharma, and gained an exclusive, royalty-bearing license with the right to grant sublicenses under Sun Pharma's intellectual property rights to develop, use, sell, offer to sell and import (including to develop and commercialize) its product, Tildrakizumab, in Greater China. The initial term of the agreement shall be 15 years from the first commercial sale of the product, and may be extended for additional 3-year increments repeatedly if certain conditions specified in the agreement are met.

Tildrakizumab-asmn is a humanized IgG1/k monoclonal antibody designed to specifically target IL-23, which is used to treat adults with moderate-to-severe plaque psoriasis that are candidates for systemic therapy or phototherapy. In March 2018, Tildrakizumab was approved by the U.S. FDA under the ILUMYA™ brand name for commercialization in the U.S. market. Two Phase III studies met primary efficacy endpoints, with an average of 63% of patients receiving Tildrakizumab 100mg achieving 75% of skin clearance by week 12, and 77% of patients achieving 75% skin clearance after 28 weeks. In the meantime, a higher number of Tildrakizumab-treated patients achieved 90% and 100% of skin clearance compared with placebo and Etanercept. Currently, the substance and formulation patents of Tildrakizumab have been granted in China. Psoriasis is a common life-long progressive and chronic systemic disease, which is currently incurable. At present, there are more than 6.5 million people suffering from psoriasis in China with an incidence rate of 0.47%. About 30% of patients with psoriasis are moderate-to-severe, and nearly 62% of them are dissatisfied with existing treatment options. According to the *Guideline for the Diagnosis and Treatment of Psoriasis in China (2018 Simplified Edition)*, biological agents are recommended for moderate-to-severe plaque psoriasis. As a cost effective biological agent with long-term safety and efficacy, Tildrakizumab-asmn can fulfill unmet clinical needs. During the Reporting Period, the Group actively worked on the regulatory application and other related work of the product in China.

Five Innovative Products In-licensed from SPARC

In November 2019, the Group through its wholly-owned subsidiary signed a license agreement with Sun Pharma Advanced Research Company Ltd. ("SPARC") for five innovative products, and gained an exclusive license with the right to grant sublicenses under SPARC's intellectual property rights and regulatory documentation to develop and commercialize the products in Greater China. The initial term of the agreement shall be 20 years from the first commercial sale of the products, and may be extended for additional 3-year increments repeatedly if certain conditions specified in the agreement are met.

Taclantis™/PICS, a new formulation of paclitaxel injection concentrate for suspension developed with the proprietary innovative technology platform of SPARC, is expected to have indications such as metastatic breast cancer (MBC), locally advanced or metastatic non-small cell lung cancer (NSCLC) and metastatic adenocarcinoma of the pancreas. During the Reporting Period, the U.S. FDA accepted the New Drug Application ("NDA") submitted by SPARC for review. In February 2020, SPARC received the Complete Response Letter from the U.S. FDA for the NDA for Taclantis™. Several recommendations in the letter were provided by the U.S. FDA to help SPARC resubmit the NDA. Currently, SPARC is actively working on the preparation works. According to 2018 IQVIA data (formerly known as IMS data), the sales of paclitaxel in Mainland China were about USD716 million, of which the albumin-bound products were about USD91.07 million. Taclantis™ is a Cremophor® and albumin free formulation, preventing the hypersensitivity reactions from Cremophor® and the potential risk of viral transmission from human serum albumin. At the same time, the premedication to prevent hypersensitivity is generally not needed prior to administration. Taclantis™ is expected to provide patients and healthcare professionals a more convenient medication option.

Xelpros™ 0.005%, is a translucent and Latanoprost BAK-free ophthalmic emulsion, indicated for reduction of elevated intraocular pressure (IOP) in patients with open-angle glaucoma or ocular hypertension. Xelpros™ was approved by the U.S. FDA and was commercialized in the U.S. in 2019. According to IQVIA data, the sales of products with the same active pharmaceutical ingredients were about USD12.79 million in Mainland China in 2018.

PDP-716 eye drops is a once-a-day formulation of Brimonidine and is proposed for the reduction of elevated IOP in patients with open-angle glaucoma or ocular hypertension. PDP-716 provides dosing convenience to patients compared to currently marketed products that require thrice-a-day dosing. Currently, SPARC has initiated the pivotal Phase III study of PDP-716. According to IQVIA data, the sales of products with the same active pharmaceutical ingredients were about USD8.24 million in Mainland China in 2018.

SDN-037 eye drops is a novel long acting (twice-a-day) formulation of a U.S. FDA approved ophthalmic steroid for eye pain and inflammation after cataract surgery. The marketed steroidal eye drops require administration every 4 to 6 hours at present. Apart from providing dosing convenience, this product's formulation is clear compared to marketed formulation, which is milky resulting in blurring of vision after administration. Currently, the product has entered the pivotal Phase III study. There is no preparation of the reference steroid launched in Mainland China at present. If marketed, this product may become an exclusive product in Mainland China.

Elepsia™ XR is a novel product designed as an extended release formulation of Levetiracetam 1000mg/1500mg, indicated as adjunctive therapy for the treatment of partial onset seizures in patients 12 years of age and older, and approved by the U.S. FDA in 2019. According to IQVIA data, the sales of the products with the same active pharmaceutical ingredients were about USD124 million in Mainland China in 2018.

Equity Investment in Overseas R&D Companies and Acquisition of the Product Rights

To further enhance the Group's innovative product pipeline, the Group investigates products with market potential of R&D companies mainly from overseas and will acquire asset rights (including intellectual property rights) or obtain exclusive licensing rights (collectively, the "Product Rights") of such products from R&D companies. In general, the Group will make equity investments in such R&D companies in order to secure the Product Rights at more favorable terms. For overseas projects under clinical stage, to reduce risks assumed and capital spending by the Group, A&B (HK) Company Limited ("A&B"), a company wholly-owned by Mr. Lam Kong, the chairman of the Board, will collaborate with the Group and assist in securing the Product Rights from potential R&D companies by making equity investments in such R&D companies.

Pre-September 2017

Procurement of the Product Rights from potential R&D companies and the corresponding investment in R&D companies was primarily carried out by A&B. After having obtained the Product Rights, A&B would transfer the Product Rights to the Group at a later stage when the development of the product reached a more advanced stage and without charging the Group for any upfront or milestone payments. When such products are eventually successfully launched in the market, only will then the Group be required to pay A&B a royalty payment which is to be calculated based on the net sales of products. The definitive terms of related transactions have not been determined. If the Group agrees any definitive terms with A&B, the Company will comply with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") including publishing a shareholders circular and seeking independent shareholders' approval, if applicable.

By not having to pay any upfront payment for acquiring the Product Rights, this strategy allows the Group to reduce the high inherent development risks of such products. One of the key innovative products obtained under such model is PoNS (Portable Neurostimulation Device) of Helius Medical Technologies, Inc. ("Helius").

An Innovative Product In-licensed from Helius -- PoNS (Portable Neurostimulation Device)

Since 2015, A&B has made equity investments in Helius, a U.S. neurotech company focused on neurological wellness. In 2015, A&B obtained the asset rights (including intellectual property rights) of the product PoNS for Greater China from Helius. In 2018, A&B transferred its asset rights in PoNS to the Group without any upfront payments. As at 31 December 2019, the Group did not have any equity interest in Helius but held the asset rights (including intellectual property rights) of PoNS for Greater China.

As a portable neurostimulation device, PoNS is the only tongue delivered stimulator which stimulates the cranial nerves by acting on the tongue. Combined with exercise training, PoNS was developed for the adjuvant treatment of balance disorders in patients with traumatic brain injury (TBI), stroke, cerebral palsy, etc. PoNS is a patented product. The invention patents that protect the product equipment have entered into the Chinese national phase via PCT international application. Helius submitted the request to the U.S. FDA for De Novo classification and 510(k) clearance of the PoNS device for the treatment of chronic balance deficit due to mild-to-moderate TBI in September 2018, and its wholly owned subsidiary received the authorization from Health Canada to market PoNS in October 2018. In April 2019, Helius announced that the U.S. FDA had completed the review of its request for De Novo classification and 510(k) clearance of the PoNS device. The U.S. FDA noted that Helius could generate additional data to address its concerns and resubmit its request. During the Reporting Period, Helius conducted a pre-submission meeting with the U.S. FDA, and the U.S. FDA provided Helius with important feedback needed to help finalize the design of a new study.

In China, there are more than 1.3 million people suffering from accidental injuries each year due to traffic accidents, which is the most common cause of TBI (accounting for 54% of TBI causes), and there is a large unmet treatment need for rehabilitation of TBI prognostic balance disorders. However, currently, there is no approved drug or method available to solve this treatment difficulty domestically and overseas. PoNS will provide patients with a new treatment method to improve the balance disorders once approved.

Equity Investment in a U.S. R&D Company Neurelis

Since 2018, both A&B and the Group have made equity investments in Neurelis, Inc. ("Neurelis"), a U.S. specialty pharmaceutical company focused on central nervous system (CNS) innovative therapies. The core senior executives of Neurelis focus on diseases of CNS and epilepsy, and possess many years of working experiences in global pharmaceutical and biotechnology companies. As at 31 December 2019, the Group held 7.96% ownership of Neurelis; A&B held 9.73% ownership of Neurelis.

NRL-1 (Diazepam Nasal Spray)

In 2016, A&B obtained the asset rights (including intellectual property rights) of the target product of Neurelis for Greater China. In 2018, A&B transferred such rights to the Group without any upfront payment. Developed by Neurelis, NRL-1 is a proprietary formulation of diazepam, delivered via a nasal formulation in a spray, for the management of pediatric and adult patients who require intermittent use of diazepam to control bouts of increased seizure activity, also known as acute repetitive or cluster seizures. NRL-1's formulation incorporates the unique combination of a Vitamin E-based solvent and Intravail® absorption enhancement with the goal of obtaining unparalleled absorption, tolerability, and reliability in a nasal formulation. Compared with intravenous diazepam, the product shows 96% absolute bioavailability with low variability, and provides a treatment option which is more convenient and can be applied anytime and anywhere to patients. The simple and rapid administration can shorten the duration of epileptic seizures and lead to better treatment outcomes for patients.

The Group has been actively working on the regulatory application and other related work of the product in China since Neurelis submitted the NDA to the U.S. FDA. During the Reporting Period, the Group received the clinical trial notice of diazepam nasal spray from the National Medical Products Administration ("NMPA") of People Republic of China. The Group is required to conduct a comparative pharmacokinetic study in Chinese subjects, and to submit a post-marketing study plan to further verify the efficacy and safety at the same time of submitting the NDA. On 13 January 2020, Neurelis announced that the U.S. FDA had approved the NDA for its product VALTOCO™ nasal spray (NRL-1) for its treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy 6 years of age and older.

According to the estimation based on domestic epidemiological data, there are about 6 million active epilepsy patients in China, with only about 2 million of them receiving regular treatment, of which 20%-30% (about 0.4-0.6 million) are still out of effective control and are at risk of repetitive seizures. Once approved in China, NRL-1 will certainly become a long-term indispensable medicine for patients with acute repetitive seizures, and its market prospect is promising.

Post-September 2017

As the China's pharmaceutical reform continues and the country's supports for innovative research and development increases, starting from September 2017 the Group adjusted its products introduction strategy and started to obtain the Product Rights of innovative products under clinical stage directly from R&D companies. The primary purpose of investing in equity of R&D companies is to obtain intellectual property rights and sales rights of innovative products under clinical stage at minimum costs and favorable terms (such as a lesser sum for or waiver of upfront fee and/or milestone payment). To reduce the Group's investment risks of innovative products under clinical stage, A&B agrees to take up half of the equity investments required in such R&D companies. Through such 50/50 equity injection, the Group acquires not only 100% rights of innovative patent products in the relevant territories, but also the equity interests in the relevant R&D companies. In addition, such equity investments will provide R&D companies with sufficient funding to accelerate their products R&D and increase the probability of successful commercialization of products acquired by the Group. This investment model is in the interests of the Company and its shareholders as a whole. Key innovative products deployed under such model include the following:

Equity Investment in a U.K. R&D Company Midatech Pharma

In 2019, both the Group and A&B made equity investments in Midatech Pharma PLC ("Midatech Pharma"), a U.K. international specialty pharmaceutical company focused on R&D of a pipeline of medicines for oncology and immunotherapy. Midatech Pharma owned three innovative technology platforms to deliver drugs at the "right time, right place": Gold Nanoparticles to enable targeted delivery; Q-Sphera polymer microspheres to enable sustained release delivery; and Nano Inclusion to provide local delivery of therapeutics, initially to the brain. The core senior executives possessed many years of experiences in drug development, biomedicine and high-tech, and worked as senior executives in multinational corporations. As at 31 December 2019, the Group held 24.34% ownership of Midatech Pharma; A&B held 24.34% ownership of Midatech Pharma.

MTD201 (A Q-Sphera™ Polymer Microsphere Formulation of Octreotide) and MTX110 (Panobinostat)

In January 2019, the Group through its wholly-owned subsidiary gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize Midatech Pharma's current products mainly including MTD201, MTX110 (subject to receipt of consent from Novartis Pharma AG or entities who acquire related rights thereafter), and certain new pharmaceutical products or line extension for Greater China and certain Southeast Asian countries.

Developed for the treatment of neuroendocrine tumors (NETs) and acromegaly, MTD201 is a Q-Sphera™ polymer microsphere formulation of Octreotide based on the Q-Sphera™ Microsphere Technology, which enables a no-burst and sustained drug release over an extended period. Potential advantages of microsphere products obtained through the technology platform over traditional sustained-release products include: reduced pain on injection, more predictable and less variable blood drug levels, fewer reconstitution difficulties and needle blockages, and avoidable losses from uneven particle size and therefore reduced cost. Various production process patents of MTD201 have been granted in China, which are valid up to 2032. In January 2020, the Phase I clinical study of MTD201 was completed, and the preparation for the commencement of the next pivotal study for the clinical development is now underway. The incidence of NETs is just behind colorectal cancer among all the gastrointestinal cancers. Somatostatin analogs are recommended by guidelines as bio-therapeutic drugs, which have been demonstrated to be effective in controlling related clinical syndromes caused by excessive hormone secretion. Acromegaly is caused by prolonged overproduction of growth hormone by the pituitary gland, and Octreotide is the most recommended medication for patients undergoing surgery while it is the preferred treatment for patients who are not suitable for surgery.

Mainly developed for the treatment of diffuse intrinsic pontine glioma (DIPG), MTX110 takes the known active histone deacetylase inhibitor (HDACi) panobinostat, and solubilizes it into liquid form using nano-inclusion technology, which increases the aqueous solubility of panobinostat and allows high drug concentrations to be delivered directly to the tumor while simultaneously minimizing systemic toxicity and other side effects. In October 2019, Midatech Pharma announced that the U.S. FDA had granted the company orphan drug designation for MTX110 for the treatment of patients with malignant glioma (DIPG included). Midatech Pharma has conducted the Phase I/II clinical trial to evaluate the safety, tolerability as well as efficacy of MTX110 given by intratumoral convection enhanced delivery in children with newly diagnosed DIPG. DIPG is a type of brain stem gliomas and its survival rate remains very low with overall median survival of approximately nine months and less than 1% survival rate within five years. At present, there is no drug for this tumor. MTX110 has the potential to bring a new treatment option for DIPG patients.

In addition to the above product pipeline, as at 31 December 2019, the Group and A&B had made equity investments in certain R&D companies, and the Group had obtained the Product Rights of their respective products which are summarized as follows:

Overseas R&D Companies	**Ownership Held by the Group** as at 31 Dec 2019	**Ownership Held by A&B** as at 31 Dec 2019	**Main Products Acquired by the Group**
Destiny Pharma Plc.	3.75%	3.75%	XF-73 (Exeporfinium chloride) Nasal Gel
Acticor Biotech	7.66%	7.66%	ACT017 (Platelet glycoprotein VI inhibitor)
Blueberry Therapeutics Limited	12.53%	12.53%	BB2603 (Terbinafine-nano)
Vaximm AG	4.38%	4.38%	VXM01 (Oral T-cell Immunotherapy)

As at 31 December 2019, the Group owned 18 innovative products in various fields including ophthalmology, dermatology, nervous system, oncology, immune system, digestive system, anti-infection and endocrine system. Among them, five products have been approved overseas. The following tables summarize the development process of the Group's innovative products:

The development process of innovative products (launched overseas /under marketing approval)

Product	Indication	Innovativeness	Phase I	Phase II	Phase III	FDA/EMA* Marketing Approval Application	Launched into the Market
Cyclosporine A, 0.09% Eye Drops	Increasing tear production in patients with keratoconjunctivitis sicca (dry eye)	Global nanotechnology patent				Approved for marketing by the U.S. FDA	
Tildrakizumab (Biological Agent)	Moderate-to-severe plaque psoriasis	Innovative biological agent; substance patent and formulation patent				Approved for marketing by the U.S. FDA, the Europe EMA and the Australia TGA**	
Diazepam Nasal Spray	Patients of 6 years of age and older with acute repetitive seizures	Innovative drug with proprietary technology for special dosage form				Approved for marketing by the U.S. FDA #	
Latanoprost Ophthalmic Emulsion	Reduction of elevated intraocular pressure (IOP) in patients with open-angle glaucoma, or ocular hypertension	Innovative technology platform to dissolve ophthalmic drugs with limited water absorbability				Approved for marketing by the U.S. FDA	
Levetiracetam XR Tablet	Adjunctive therapy for the treatment of partial-onset seizures	Specialty formulation technology				Approved for marketing by the U.S. FDA	
PoNS (Medical Device)	Physical adjuvant therapy for balance disorders related symptoms due to mild-to-moderate traumatic brain injury (TBI)	Innovative medical device				Received License Clearance from Health Canada to market in Canada	
Paclitaxel Injection Concentrate for Suspension	Metastatic breast cancer, locally advanced/metastatic non-small cell lung cancer, metastatic adenocarcinoma of the pancreas	Formulation patents					

* European Medicines Agency ("EMA")

** Therapeutic Goods Administration ("TGA")

In January 2020, the U.S. FDA has approved the NDA for Diazepam Nasal Spray

The development process of innovative products (under clinical stages)

Product	Indication	Innovativeness	Phase I	Phase II	Phase III	FDA/EMA Marketing Approval Application	Launched into the Market
CMS024	Primary liver cancer	New lead compound; substance, compound, use and application patents					
PDP-716	Reduction of elevated intraocular pressure (IOP) in patients with open-angle glaucoma, or ocular hypertension	Resin microparticle-complexed drug technology					
SDN-037	Eye pain and inflammation after cataract surgery	Proprietary nano-sized micelle drug delivery system					
CF101	Rheumatoid arthritis (RA)	New lead compound					
	Psoriasis						
CF102	Hepatocellular carcinoma (HCC)	New lead compound					
	Non-alcoholic fatty liver disease (NAFLD) / Non-alcoholic steatohepatitis (NASH)						
XF-73	Prevention of post-surgical staphylococcal infections	New lead compound; compound patent and use patent					
BB2603	Onychomycosis and tinea pedis	Formulation patents					
ACT017 (Biological Agent)	Acute phase of ischemic stroke	Innovative biological agent; substance patent					
VXM01 (Biological Agent)	Recurrent glioblastoma (GBM)	Innovative biological agent; production process patent and use patent					
MTX110	Diffuse intrinsic pontine glioma (DIPG)	Increases available routes of administration for a drug					
MTD201	Acromegaly and neuroendocrine tumours (NETs)	Production process patents					

2. Deployment and Development of Generic Drugs with Market Competitiveness

By capitalizing on its abundant product resources and advanced generic pharmaceutical techniques in overseas markets, the Group intended to deploy complex generic drugs and generic clusters with market competitiveness in China market selectively. The Group will remain the supplement and iteration of generic clusters to create an incremental market through participating in the National Volume-based Procurement. During the Reporting Period, the Group acquired, by way of licensing-in, exclusive license rights in respect of 11 generic drugs, including one complex generic drug with high imitation barriers.

Sun Pharma: One Complex Generic Drug and Seven Generic Drugs

In August 2019, the Group through its wholly-owned subsidiary signed a license agreement with Sun Pharma for seven generic products, and gained an exclusive license with the right to grant sublicenses under Sun Pharma's intellectual property rights and regulatory documentation to develop and commercialize the products in Mainland China. The initial term of the agreement shall be 20 years from the first commercial sale of the products and may be extended for additional 3-year increments as per mutual agreement of the two parties. During the Reporting Period, the Group and Sun Pharma made collaboration on eight generic drugs in total, including seven generic drugs mentioned above and one complex generic drug.

According to 2018 IQVIA data, products with the same active pharmaceutical ingredients addressed about one billion USD potential market in Mainland China.

Biocon: Three Generic Drugs

In September 2019, the Group through its wholly-owned subsidiary signed a license and supply agreement with a wholly-owned subsidiary of Biocon Limited ("Biocon") for three generic products, and gained an exclusive license to register and commercialize the products under the Biocon's intellectual property in Greater China. The initial term of the agreement shall be 10 years and may be extended for every fixed period of 2 years on a product-by-product basis as per certain conditions specified in the agreement or otherwise as per mutual agreement of the two parties.

According to IQVIA data, sales of drugs with the same active pharmaceutical ingredients of the products in Mainland China were about USD800 million in 2018.

II. Existing Product Development

1. Main Products

Cardio-cerebrovascular Line

The Group's products under cardio-cerebrovascular line mainly include Plendil, XinHuoSu and Deanxit. During the Reporting Period, the products under cardio-cerebrovascular line recorded a revenue of RMB2,649.0 million, an increase of 5.4% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue of products under cardio-cerebrovascular line would increase by 12.1% to RMB3,803.5 million compared with the same period last year, accounting for 55.1% of the Group's revenue excluding the effect of the "two-invoice system".

Plendil (Felodipine Sustained Release Tablets)

The Group owns the 20-year exclusive license for the commercialization of Plendil in China (HK SAR, Macau SAR and TWN excluded). Plendil is manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司), and used to treat hypertension and stable angina pectoris. Plendil is in the NRDL, and it was included in the National Essential Drugs List ("NEDL") in 2018. Plendil is a sustained release formulation of Felodipine, which stabilizes and controls blood pressure with low occurrence rates of side effects. In 2018, the latest edition of the *2018 Revised Edition of Chinese Guidelines for Prevention and Treatment of Hypertension* was released and continuously granted Felodipine the relevant recommendation based on the previous version (2010). In 2019, the *2019 Chinese Guidelines for the Hypertension Management in the Elderly* granted Felodipine the relevant recommendation. During the Reporting Period, the Group adhered to the differentiation promotion strategy to enhance the brand advantage of "Choice of Antihypertensive in China with Cardiovascular and Cerebrovascular Protection", and accelerated the penetration of the county-level and lower-tier markets while stabilizing the core market. For the year ended 31 December 2019, sales of Plendil covered around 28,000 hospitals and medical institutions throughout China.

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holding Co. ("Tibet Pharma", an associated company of the Group) in which the Group holds 37.36% of the share, is a National Class One biological agent used to treat acute heart failure. It is also the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently available in China market. XinHuoSu is included in the NRDL and was recommended by the first *Acute Heart Failure Diagnosis and Treatment Guideline (2010)* in China. rhBNP was recommended by the *Guidelines for the Rational Medication of Heart Failure Second Edition (2019)* and the *Acute Heart Failure Emergency Diagnosis and Treatment Guideline (2019)* during the Reporting Period. XinHuoSu has gradually become a new-generation medication for acute heart failure. During the Reporting Period, the Group expanded the expert network of the cardiology department with width and depth and established and improved the academic and expert platforms related to the critical and emergency conditions of cardiothoracic surgery, to further enhance product's academic influence and its medication status in the field of acute heart failure. In addition, the Group strengthened the cross-regional and multi-level communication through integrating resources with other products under the Group's cardio-cerebrovascular line. For the year ended 31 December 2019, sales of XinHuoSu covered around 2,900 hospitals and medical institutions throughout China.

Deanxit (Flupentixol and Melitracen Tablets)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild-to-moderate depression, anxiety and psychosomatic affections, and is in the NRDL. Based on IQVIA data in 2019, Deanxit ranked first in the market share of antidepressant drugs in China. The Flupentixol and Melitracen was recommended by the *Guidelines for the Diagnosis and Treatment of Common Diseases of the Nervous System with Depression* in 2018. During the Reporting Period, the Group continued to fully construct and optimize the existing promotion platform for the product, and penetrated the expert network to explore and deliver the academic value of the product, to solidify the promotion in traditional departments while actively expanding the lower-tier market. At the same time, the Group continued to accelerate the expansion of the retail market. For the year ended 31 December 2019, sales of Deanxit covered around 26,000 hospitals and medical institutions throughout China.

Digestion Line

The Group's products under digestion line mainly include Ursofalk, Salofalk, Bioflor and Combizym. During the Reporting Period, the revenue of products under digestion line increased by 19.0% to RMB2,185.5 million compared with the same period last year, accounting for 31.7% of the Group's revenue excluding the effect of the "two-invoice system".

Ursofalk (Ursodeoxycholic Acid Capsules)

Ursofalk is manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Dr. Falk Pharma GmbH ("Falk"), Germany. Listed in the NRDL, Ursofalk is used for the treatment of cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis. Based on IQVIA data in 2019, Ursofalk was the best-selling ursodeoxycholic acid drug in China, and stably ranked first in sales among products in the Chinese cholagogue market. In 2019, Ursodeoxycholic was recommended by the *Diagnosis and Management of Autoimmune Hepatitis in Adults and Children: 2019 Practice Guidance and Guidelines from the American Association for the Study of Liver Diseases* and the *Chinese Consensus on the Diagnosis and Treatment of Liver Fibrosis 2019.* During the Reporting Period, the Group solidified the promotion in several major departments such as traditional infection and hepatopathy, and conducted the synergized promotion with other products under digestion line of the Group, further driving the growth of Ursofalk. Meanwhile, the Group actively established and expanded the authoritative expert network to consolidate the differentiation academic advantages as well as enhance the brand awareness of the product. For the year ended 31 December 2019, sales of Ursofalk covered around 11,700 hospitals and medical institutions throughout China.

Salofalk (Mesalazine)

Salofalk suppositories and enemas are manufactured by Vifor AG Zweigniederlassung Medichmie Ettingen, Switzerland, and the enteric-coated tablets of Salofalk are manufactured by Losan Pharma GmbH, Germany. Both are the entrusted manufacturers of Falk, Germany. Salofalk is mainly used to treat Ulcerative Colitis, including the treatment of acute exacerbations and the maintenance treatment to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease. Salofalk is in the NRDL, and it was also included in the NEDL in 2018. It is the Mesalazine with the fullest dosage forms in China market currently. Based on IQVIA data in 2019, Salofalk ranked first in the market share of inflammatory bowel disorder drugs in China. In 2019, Mesalazin was recommended by the *2019 British Society of Gastroenterology Consensus Guidelines on the Management of Inflammatory Bowel Disease in Adults* and the *Expert Consensus on Management of Inflammatory Bowel Disease during Pregnancy (2019).* During the Reporting Period, the Group actively optimized the core expert network and platform to promote the standardized treatment level of relevant indications while enhancing a positive brand image of Salofalk across various levels of expert network. At the same time, leveraging the opportunities arising from the inclusion in NEDL, the Group continued to expand the deployment of the full dosage forms of Salofalk in potential hospitals to promote its sales growth. For the year ended 31 December 2019, sales of Salofalk covered around 4,000 hospitals and medical institutions throughout China.

Bioflor (Saccharomyces Boulardii Sachets)

Manufactured by Biocodex of France, Bioflor is a probiotic agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the global leading probiotics preparations currently. The latest *Chinese Clinical Practice Guidelines for Children with Acute Infectious Diarrhea* published in 2016 gave Bioflor a high level of recommendation. In 2017, the World Gastroenterology Organization ("WGO") updated the *Probiotics and Prebiotics Guideline* and the authoritative recommendation of Bioflor for relevant indications remained as in the previous version (2011). During the Reporting Period, adhering to the academic-oriented differentiation promotion strategy in core indications of pediatric department based on the evidence of evidence-based medicine, the Group cooperated with Biocodex to carry out academic forums and conference tours nationwide, and actively organized academic seminars and re-education activities fully leveraging online digital promotion tools and offline promotion initiatives. For the year ended 31 December 2019, sales of Bioflor covered around 4,000 hospitals and medical institutions throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns related assets of Combizym for Greater China and other designated countries or areas, and has entrusted the manufacture of the product to Nordmark Arzneimittel GmbH & Co.KG, Germany. The main ingredients of Combizym are extracts of pancreatin and aspergillus oryzae enzymes. The product is used for treating dyspepsia caused by a decrease in digestive enzymes and is in the NRDL. Issued in 2019, the *Consensus on Diagnosis and Treatment of Chronic Cholecystitis and Gallstones in China (2018)* granted Combizym the recommendation for its relevant indications. During the Reporting Period, leveraging the integration of expert resources from various levels and resources of other products under the digestion line, the Group continually rolled out with clinical research and recommendation of academic guidelines to enhance the academic infiltration and driving force of Combizym. For the year ended 31 December 2019, sales of Combizym covered around 2,000 hospitals and medical institutions throughout China.

Ophthalmology Line

The Group's main product under ophthalmology line is Augentropfen Stulln Mono Eye Drops. During the Reporting Period, the revenue of the product under ophthalmology line increased by 14.3% to RMB257.6 million, compared with the same period last year, accounting for 3.7% of the Group's revenue excluding the effect of the "two-invoice system".

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

The Group owns related assets of Augentropfen Stulln Mono Eye Drops for China (HK SAR and Macau SAR included) market, and has entrusted the manufacture to Pharma Stulln GmbH of Germany. Augentropfen Stulln Mono Eye Drops is used to treat senile macula degeneration and all forms of asthenopia. It is the only eye drops in China market for the treatment of macula degeneration and the representative drug for asthenopia, and it is preservative-free. In 2019, as the therapeutic drug of asthenopia, Stulln was recommended by the *Expert Consensus on Perioperative Medication for Corneal Laser Refractive Surgery in China (2019)*. During the Reporting Period, leveraging various levels of the ophthalmological academic platforms, academic re-education platforms and digital marketing, the Group actively conducted academic conferences and product re-education activities. Meanwhile, the Group stabilized promotional work in the ocular fundus disease and continued to reinforce and refine promotional work in related fields of asthenopia. For the year ended 31 December 2019, sales of Stulln covered around 8,800 hospitals and medical institutions throughout China.

Dermatology Line

The Group's products under dermatology line mainly include Hirudoid. During the Reporting Period, the revenue of products under dermatology line increased by 15.9% to RMB182.4 million compared with the same period last year, accounting for 2.6% of the Group's revenue excluding the effect of the "two-invoice system".

Hirudoid (Mucopolysaccharide Polysulfate Cream)

The Group owns the related assets of Hirudoid for China (HK SAR, Macau SAR and TWN excluded) market, and has entrusted the manufacture of the product to Mobilat Produktions GmbH, Germany. Hirudoid is used in the treatment of blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression and the drug is proven to have broad effects and high safety. The active ingredient of Hirudoid is mucopolysaccharide polysulfate, which was recommended by *Japan JSA Guidelines for Atopic Dermatitis* in 2017, and also recommended by China's first edition of *Expert Consensus on Diagnosis and Treatment of Senile Skin Pruritus* in 2018. During the Reporting Period, Hirudoid was included in 2019 NRDL. The Group intensively cultivated experts' consensus and upper-level evidence of evidence-based medicine, explored in depth the refined promotion in the dermatological indications of Hirudoid, while actively expanding the promotion around the systematic and standardized medication of hemodialysis pathway. All these efforts were aimed at driving the growth of Hirudoid. For the year ended 31 December 2019, sales of Hirudoid covered around 8,500 hospitals and medical institutions throughout China.

2. Other Products

During the Reporting Period, other products sold and promoted by the Group recorded a revenue of RMB799.1 million, an increase of 14.1% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue would decrease by 10.3% to RMB468.2 million compared with the same period last year, accounting for 6.8% of the Group's revenue excluding the effect of the "two-invoice system".

III. Network Development

To actively adapt to the policy direction in the pharmaceutical industry and to build up a professional and compliant academic promotion carrier that is more suitable for the promotion of innovative products in the future, the Group has accelerated the strategic planning and upgrading of its academic network. During the Reporting Period, the Group concentrated on the planning of its academic network regions coverage. Through refining and subdividing the product promotional lines in the core markets, the Group conducted deployment of the academic promotion for future innovative products in advance while enhancing the promotion efficiency for existing products. In addition, the Group expanded the coverage of the lower-tier market and continued to explore the depth of its academic network. On the other hand, in order to enhance the professionalism and efficiency of the promotion for each product line in the academic network, the Group has implemented a more refined and professional management for its promotional team leveraging innovative technology tools. During the Reporting Period, the Group introduced an online job qualification system, continued to establish and optimize the training system, and constantly strengthened all kinds of medical knowledge, drug academic knowledge, and compliance awareness of its promotional staff, aiming to build a more professional, compliant and efficient promotional team. As at December 31, 2019, the academic promotion network of the Group had about 3,100 professional marketing and promotion related personnel. For the year ended 31 December 2019, the Group's promotion network had covered around 57,000 hospitals and medical institutions in China.

At the same time, as the national coordinated reform of "Medical Services, Health Insurance, and the Medicine Industry" gradually progressed, the trend of prescription outflow has been intensified. During the Reporting Period, the Group continued to expand the scale of its retail team and coverage of existing products at drugstores in the retail market. Through a deepened exploration and steady optimization of the retail data system, the Group further improved the efficiency and accuracy of data analysis. The Group conducted hierarchy management for chain drugstores, distinguished the key drugstores from the rest while allocating relevant resources to provide support for the long-term growth of its retailing products. Also, the Group has built a new compensation and assessment system and improved the assessment standards based on comprehensive indicators, to achieve a refined internal management of retail business for laying a foundation for the expansion and development of its retail team.

IV. Internal Reorganization

In view of the Chinese government policies on increasing the cooperation among Guangdong Province, HK SAR and Macau SAR as well as promoting the development of the Greater Bay Area, to satisfy the Group's development needs and to improve the overall administrative efficiency, the Group underwent an internal division adjustment to its overseas business in 2019.

The primary functions of CMS Pharma Co., Ltd (a company incorporated in Malaysia) prior to the division adjustment included: identifying, selecting and evaluating potential product candidates for introduction to the Group's pipeline; negotiating with suppliers and manufacturers (mainly drug companies) and procuring the product rights to the selected product candidates; supervising quality control over the suppliers' manufacturing of the Group's products; managing the supply chain; and formulating a sales and marketing strategy framework for each product. Over the course of 2019, CMS Pharma Co., Ltd assigned its functions to the following four companies including CMS Bridging Limited (a company incorporated in HK SAR), CMS International Development and Management Limited (a company incorporated in Macau SAR), CMS Pharma DMCC (a company incorporated in Dubai) and CMS Bridging DMCC (a company incorporated in Dubai).The Group is confident that the new overseas business structure will be more conducive to attracting and stabilizing international medical, pharmaceutical and other professionals for the Group, and add impetus to the long-term development of the Group.

Subsequent Events

Extension of the Exclusive Promotion and Sales Right of Deanxit to 31 December 2022

Based on the long-term satisfactory collaboration and according to the extension mechanism under the addendum signed on 31 January 2013 with Lundbeck Export A/S for its product Deanxit, the Group's (acting through its wholly-owned subsidiary) exclusive promotion and sales right of Deanxit in China (excluding HK SAR, Macau SAR and TWN) has been extended from 31 December 2020 to 31 December 2022.

Signing a License Agreement of the Innovative Product Desidustat with Zydus

The Group through its wholly-owned subsidiary signed a license agreement with Cadila Healthcare Limited ("Zydus") for its product Desidustat (ZYAN1) on 20 January 2020. According to the agreement, the Group, through its wholly-owned subsidiary, will gain a royalty bearing, exclusive, sub-licensable license under the licensed technology and Zydus data to develop, register and to manufacture, use and commercialize the product in Greater China, and the manufacturing of the final product will be localized by the Group in China with technology transfer from Zydus. The term of the agreement starts on the date of signing the agreement until the last date of the occurrence of the following: (i) the expiration of the last–to-expire patent containing a valid claim covering the manufacture, use, import, offer for sale or sale of the product in the related territory; (ii) ten years after the first commercial sale of the product in the related territory; and (iii) the expiration of all regulatory exclusivities for the product in the related territory. Upon expiration of the aforementioned term, the agreement may be renewable for every single period of five years thereafter as per certain conditions defined in the agreement. For more information, please refer to the "Voluntary and Business Update Announcement Related to Signing a License Agreement of the Innovative Product Desidustat with Zydus" published by the Company on 20 January 2020.

Donation of CytoSorb Cytokine Adsorbers to Selected Mainland China Healthcare Institutions to Treat Severe Patients with Novel Coronavirus Pneumonia

The Group signed an agreement with CytoSorbents Corporation ("CytoSorbents", NASDAQ stock symbol: CTSO) on 19 February 2020 to work together to donate an initial quantity of CytoSorb® extracorporeal cytokine adsorbers from CytoSorbents to selected healthcare institutions in Mainland China for clinical evaluation in critically-ill 2019 novel coronavirus pneumonia patients. Recently, the Coronavirus Disease 2019 ("COVID-19") is breaking out in Mainland China. Several medical researches have shown that a significant proportion of critically-ill COVID-19 patients have had severe inflammatory responses, which has led, in many cases, to acurate respiratory distress syndrome, shock, and multiple organ failure, with a poor prognosis and sometimes death. Considering the above, the Group reached an urgent agreement with CytoSorbents to work together to jointly donate an initial number of CytoSorb® blood purification cartridges to selected Mainland China healthcare institutions, in order to support a clinical evaluation of CytoSorb® in the treatment of critically-ill COVID-19 patients with a high inflammatory response who also require extracorporeal blood purification (continuous renal replacement therapy (CRRT) / extracorporeal membrane oxygenation (ECMO), etc.). In order to meet the needs of preventing and controlling the outbreak, the Group will apply to the relevant authorities for the urgent importation of CytoSorb® pursuant to related regulations such as "Opinions on the Urgent Importation of Unlicensed Medical Devices in China"（《關於緊急進口未在中國註冊醫療器械的意見》）by NMPA, so as to donate CytoSorb® to selected healthcare institutions as soon as possible. Based on the results of the clinical evaluation, the Group may further commercially collaborate with CytoSorbents in due course. For more information, please refer to the "Voluntary and Business Update Announcement Donation of CytoSorb Cytokine Adsorbers to Selected Mainland China Healthcare Institutions to Treat Severe Patients with Novel Coronavirus Pneumonia" published by the Company on 19 February 2020.

Impacts of COVID-19

Since the outbreak of COVID-19 in January 2020, a series of precautionary and control measures have been and continued to be implemented across China and other parts of the world. At the same time, the Chinese government also issued several supporting policies, including reducing or exempting companies from paying social insurance and housing provident funds, and providing loan interest subsidies, to alleviate the impact on businesses. The Group will pay close attention to the development of COVID-19. To prevent the outbreak from having material adverse effects on the businesses, the Group actively cooperates with the government for various precautionary and control measures to resume business and production, carries out online academic conferences, and keeps close communication with overseas suppliers.

Impacts of Significant Policies with respect to Pharmaceutical Industry

As one of the players in the China pharmaceutical industry, the Group is exposed to various types of policy potential risks in the industry. However, the Group has actively embraced the changes brought by pharmaceutical reform policies, and adhered to the long-term development strategy with innovation as its core.

In 2019, the National Volume-based Procurement policy was the most significant policy affecting the development of the Chinese pharmaceutical industry. With the implementation of the Volume-based Procurement policy in "4+7" pilot cities, the nationwide expansion of the "4+7", and the release of the policy and catalogue of the second round of Volume-based Procurement, such policy has accelerated the progress this year. The latest policy shows that the Volume-based Procurement has evolved to accommodate multiple bidding winners from one exclusive winner in the "4+7" pilot program, which is a change that reduces the risk of over-competition under the exclusive winner-rule to a certain extent; meanwhile, all products included in the second round of Volume-based Procurement contain at least two generics passing the consistency evaluation. As at 31 December 2019, none of the products sold by the Group was included in the catalogue of the National Volume-based Procurement, thus this policy has not affected the operation and profitability of the Group during the Reporting Period, and will not affect the operation and profitability of the Group during the implementation period of the second round of Volume-based Procurement. In the future, the potential risks for the Group under the National Volume-based Procurement policy will depend on any specific changes in the policy, the number of generics competitors of the Group's several original products sold passing the consistency evaluation, and the time those generics competitors passing the evaluation etc.; the Group will continue to watch closely for the policy changes and follow up the progress of consistency evaluation. The Group will accelerate the progress of the marketing approval and commercialization of the Group's innovative products and that of the highly competitive generics in China. The Group is working towards achieving the commercialization of innovative products and generics in the China market as early as possible, so as to offset the potential risk of the Group's original products being possibly included into the catalogue of the Volume-based Procurement in the future.

Outlook and Future Development

In recent years, economic progress, gradual improvement of people's living standards and the increase in health awareness, an aging population, alongside the acceleration of urbanization and continuous investment by the Chinese government in the medical and healthcare sectors were spurring the rapid development and the expanding market scale of China pharmaceutical industry. At the same time, the continuous introduction of weighty pharmaceutical policies has accelerated the upgrading and optimization of China pharmaceutical industry. Along with the reduction of drug prices, improvement of drug quality and enhancement of rational drug use, the trend of product structure in China pharmaceutical market is moving towards innovative products, and the standards of drug promotion in the pharmaceutical market are becoming more professional. Capitalizing on the Group's nationwide professional academic network built in the past two decades, the Group is fully confident that it will be able to boost the long-term development of its future product clusters with innovative products as its core in the China market, thus will maintain a solid performance growth.

While consolidating the product competence of the existing products, the Group is confident of building up a sustainable development driving force for its new products. On the one hand, the Group will continue to make equity investments in first-rate overseas pharmaceutical companies or forge long-term strategic cooperations with them, aiming at deploying more innovative products into its new product clusters to fulfill the unmet needs of China pharmaceutical market. The Group will also concentrate on accelerating the China market commercialization process for innovative products that have been launched overseas. On the other hand, the Group will continue to capitalize on its forward-looking vision to selectively deploy generic drug clusters with market competitiveness in China market, in order to expand the incremental market by capturing the dividends from the National Volume-based Procurement.

In terms of network development, the Group intends to continuously optimize its promotion network and continually adhere to a compliant, efficient and professional academic promotion system to support the constant release of energy of the Group's innovative product clusters in the academic promotion of China market. By constantly optimizing and upgrading the existing network and leveraging the accumulated academic resources from corresponding therapeutic departments of its existing products, the Group will build a more professional, dedicated, and differentiated academic promotion carrier for the upcoming commercialization of innovative products. The implementation of the national hierarchical diagnosis and treatment system is in progress. Adapting to this, the Group will continue to move down the academic promotion network and penetrate the lower-tier market to further explore the depth of the Group's academic promotion.

Looking ahead, China pharmaceutical market will usher in a new developmental stage, with the co-existence of glory and hardship. In the foreseeable future, CMS aspires to become one of the most forefront players striving for progress in China pharmaceutical market. "The mission will be accomplished with perseverance". Upholding the belief unwaveringly and capitalizing on the robust innovation driving force, the Group will forge and march onwards with determination regardless of any difficulties!

Financial Review

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

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

Turnover

Turnover increased by 11.8% from RMB5,433.4 million for the year ended 31 December 2018 to RMB6,073.6 million for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", turnover increased by 12.4% to RMB6,897.2 million for the year ended 31 December 2019 from RMB6,134.5 million for the year ended 31 December 2018, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 16.1% from RMB3,916.9 million for the year ended 31 December 2018 to RMB4,546.3 million for the year ended 31 December 2019; excluding the effect of the "two-invoice system", gross profit increased by 15.4% to RMB4,173.3 million for the year ended 31 December 2019 from RMB3,616.8 million for the year ended 31 December 2018, primarily reflecting an increase in turnover. Gross profit margin increased by 2.8 percentage points to 74.9% for the year ended 31 December 2019 from 72.1% for the year ended 31 December 2018; excluding the effect of the "two-invoice system", gross profit margin increased by 1.5 percentage points to 60.5% for the year ended 31 December 2019 from 59.0% for the year ended 31 December 2018, mainly due to a decrease in value added tax rate.

Selling Expenses

Selling expenses increased by 15.9% from RMB1,672.6 million for the year ended 31 December 2018 to RMB1,939.2 million for the year ended 31 December 2019; selling expenses as a percentage of turnover increased by 1.1 percentage points to 31.9% for the year ended 31 December 2019 from 30.8% for the year ended 31 December 2018. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover increased by 0.3 percentage point to 22.7% for the year ended 31 December 2019 from 22.4% for the year ended 31 December 2018, primarily reflecting an increase in academic promotion activities and human costs of the Group.

Administrative Expenses

Administrative expenses increased by 3.3% from RMB243.3 million for the year ended 31 December 2018 to RMB251.3 million for the year ended 31 December 2019; administrative expenses as a percentage of turnover decreased by 0.4 percentage point to 4.1% for the year ended 31 December 2019 from 4.5% for the year ended 31 December 2018. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover decreased by 0.4 percentage point to 3.6% for the year ended 31 December 2019 from 4.0% for the year ended 31 December 2018, primarily reflecting the Group's effective expenses control and the benefit from economies of scale.

Other Gains and Losses

Other gains and losses increased by 1,415.3% from a loss of RMB5.6 million for the year ended 31 December 2018 to a gain of RMB73.8 million for the year ended 31 December 2019, mainly reflecting an increase in receiving government subsidies and the exchange gain on bank borrowings in foreign currencies.

Share of Result of Associates

Share of result of associates increased by 37.9% from RMB82.9 million for the year ended 31 December 2018 to RMB114.3 million for year ended 31 December 2019, mainly reflecting an increase in profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs decreased by 21.7% from RMB71.9 million for the year ended 31 December 2018 to RMB56.3 million for the year ended 31 December 2019, mainly reflecting a decrease in utilization of bank borrowings.

Income Tax Expense

Income tax expense increased by RMB370.2 million from RMB161.8 million for the year ended 31 December 2018 to RMB532.0 million for the year ended 31 December 2019. Excluding the income tax impact arising from the change in income tax policy applicable to a subsidiary of the Group for the Reporting Period, income tax expense increased by RMB48.9 million to RMB210.6 million for the year ended 31 December 2019. Pursuant to the tax policy revised by Labuan government at the end of 2018, trading entities in Labuan are not allowed to elect to pay a lump sum tax of MYR20,000 annually, only specific industries by which economic substance requirements are met are eligible to be taxed at 3% of net audited profits, all other industries shall be taxed at 24% of net audited profits, starting from 1 January 2019. Labuan government is planning to take the trading industry by which economic substance requirements are met (in which the business of CMS Pharma Co., Ltd fell) into the list applicable to tax rate of 3%, this has been filed to Malaysia government in February 2020 and waiting for its approval.

Profit for the Year

Profit for the year increased by 6.0% from RMB1,844.6 million for the year ended 31 December 2018 to RMB1,955.7 million for the year ended 31 December 2019; excluding the income tax to be determined, profit for the year increased by 23.4% to RMB2,277.1 million for the year ended 31 December 2019, mainly due to the continuous growth in turnover and an increase in other gains.

Inventories

Inventories decreased by 6.4% from RMB434.7 million as at 31 December 2018 to RMB407.1 million as at 31 December 2019. Average inventory turnover days decreased from 108 days for the year ended 31 December 2018 to 101 days for the year ended 31 December 2019, mainly due to the improvement on stock management efficiency.

Trade Receivables

Trade receivables decreased by 21.8% from RMB1,280.7 million as at 31 December 2018 to RMB1,001.9 million as at 31 December 2019. Average trade receivables turnover days decreased to 69 days for the year ended 31 December 2019 from 77 days for the year ended 31 December 2018, mainly due to the strengthened management on trade receivables.

Trade Payables

Trade payables decreased by 58.5% from RMB106.1 million as at 31 December 2018 to RMB44.0 million as at 31 December 2019. Average trade payables turnover days decreased to 18 days for the year ended 31 December 2019 from 28 days for the year ended 31 December 2018, mainly reflecting the difference in time points of purchases.

Liquidity and Financial Resources

As at 31 December 2019, the Group's bank balances and cash amounted to RMB1,365.0 million while readily realizable bank acceptance bills amounted to RMB414.0 million. As at 31 December 2018, the bank balances and cash amounted to RMB815.1 million while readily realizable bank acceptance bills amounted to RMB291.6 million.

As at 31 December 2019, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("EUR"), Great Britain Pound ("GBP"), Swiss Franc ("CHF") and Hong Kong Dollars ("HK$").

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net cash from operating activities	2,555,119	1,754,565
Net cash used in investing activities	(309,386)	(239,689)
Net cash used in financing activities	(1,695,137)	(1,554,311)
Net increase (decrease) in cash and cash equivalent	550,596	(39,435)
Cash and cash equivalent at beginning of the year	815,081	855,629
Effect of foreign exchange rate changes	(669)	(1,113)
Cash and cash equivalent at end of the year	1,365,008	815,081

Net cash from operating activities

The Group's net cash generated from operating activities was RMB2,555.1 million for the year ended 31 December 2019 compared with RMB1,754.6 million for the year ended 31 December 2018, an increase of 45.6% mainly due to an increase in turnover and the difference in time points of settlements.

Net cash used in investing activities

For the year ended 31 December 2019, the Group's net cash used in investing activities was RMB309.4 million compared with RMB239.7 million for the year ended 31 December 2018, an increase of 29.1% mainly due to an increase in acquisition of product rights.

Net cash used in financing activities

For the year ended 31 December 2019, the Group's net cash used in financing activities was RMB1,695.1 million compared with RMB1,554.3 million for the year ended 31 December 2018, an increase of 9.1% mainly due to an increase in dividend payment.

Net Current Assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current Assets		
Inventories	407,058	434,661
Financial assets at fair value through profit or loss	2,736	-
Trade receivables	1,001,862	1,280,702
Other receivables and prepayments	583,862	438,052
Tax recoverable	10,801	8,296
Derivative financial instruments	28,192	-
Amount due from an associate	152,804	137,749
Bank balances and cash	1,365,008	815,081
	3,552,323	3,114,541
Current Liabilities		
Trade payables	44,040	106,134
Other payables	328,756	276,081
Lease liabilities	9,388	-
Contract liabilities	12,939	5,469
Bank borrowings	693,909	25,000
Derivative financial instruments	142	-
Deferred consideration payables	10,744	8,847
Tax payable	447,784	129,314
	1,547,702	550,845
Net current assets	2,004,621	2,563,696

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, long-term bank loans and other financing means, according to the corporate development strategy.

Capital Expenditures

The following table shows the Group's capital expenditure:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Deposits for acquisition of intangile assets	302,927	23,120
Purchase of prepaid lease payments	-	4,997
Purchase of property, plant and equipment	37,546	33,855
Purchase of equity instruments	42,510	230,953
	382,983	292,925

Capital Structure and Gearing Ratio

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

The following table shows the Group's debts:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Interest bearing bank borrowings	693,909	1,465,195

The Group had bank borrowings of RMB693.9 million as at 31 December 2019 (31 December 2018: RMB1,465.2 million). During the year ended 31 December 2019, the Group repaid part of bank borrowings. The details of bank borrowings are set out in note 29 to the consolidated financial statements.

As said above, along with the decrease in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased by 7.7 percentage points to 6.2% as at 31 December 2019 from 13.9% as at 31 December 2018.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 36 to the consolidated financial statements.

The Group is mainly exposed to currency risk of the US$, EUR, GBP, CHF and HK$. For the Group's subsidiaries in China, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. As at 31 December 2019, the Group had entered into certain foreign currency forward contracts to hedge foreign currency risk, for details please refer to note 32 to the consolidated financial statements.

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

Pledge of Assets

As at 31 December 2019, the Group had pledged property, plant and equipment and leasehold land with net book values of approximately RMB69,838,000 and RMB15,904,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

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

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

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

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder of the Company (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii) ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2019, Mr. Lam Kong (directly and indirectly) held approximately 44.46% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2019, the Group paid an interim dividend for 2019 and a final dividend for 2018 of RMB467.1 million and RMB355.7 million, respectively. For the year ended 31 December 2018, the Group paid an interim dividend for 2018 and a final dividend for 2017 of RMB382.0 million and RMB346.5 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Lam Kong, aged 55, is the Chairman, Chief Executive and President of the Group and was appointed as an executive Director on 18 December 2006. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy. Mr. Lam possesses clinical experience and has many years of extensive experience in marketing, promotion, sales and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, which was renamed to Guangdong Medical University. Mr. Lam is a member of the Nomination Committee of the Company and the sole director of Treasure Sea Limited, the controlling shareholder of the Company.

Mr. Lam is the controlling shareholder of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on page 38 of this annual report.

Mr. Chen Hongbing, aged 53, is the Chief Operating Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the operation of the Group's marketing, promotion and sale business and management of product manufacturing. He had acquired about 4 years' public hospital doctor experience as a doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He received his bachelor's degree in clinical medicine from Nanjing Medical College in 1990, which was renamed to Nanjing Medical University.

Mr. Chen is the sole director of Viewell Limited (a shareholder of the Company) and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 38 of this annual report.

Ms. Chen Yanling (former Chinese name was 陳艷玲), aged 49, is the Chief Financial Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's financial management, investor relations, government affairs and administration. She holds an EMBA degree and is a senior accountant with extensive experience in financial management. Ms. Chen was awarded with the "Best CFO of Hong Kong Listed Companies" in the GeLongHui's first Best Listed Companies of Greater China Award in May 2019. From 2012 to 2018, Ms. Chen was awarded the "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry" by the Institutional Investor Magazine for seven consecutive times.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 38 of this annual report.

Independent Non-Executive Directors

Mr. Cheung Kam Shing, Terry, aged 57, was appointed as an independent non-executive Director on 18 August 2010. Mr. Cheung has more than 30 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. The companies he worked for after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as a managing director at Culturecom Holdings Limited (a company listed on the Stock Exchange with stock code: 0343) from 2000 to 2005. He later served as a managing director of Nouveau Investment Group Limited from 2005 to mid-2010. He served as the chief operating officer of GreaterChina Professional Services Limited (now known as Asia-Pac Financial Investment Company Limited, a company listed on the Stock Exchange with stock code: 8193) from July 2010 to March 2015. Mr. Cheung was an independent non-executive director of Greens Holdings Limited (a company listed on the Stock Exchange with stock code: 1318) from December 2014 and subsequently appointed as an executive director until October 2015. Mr. Cheung was an executive director of Pearl Oriental Oil Limited (a company listed on the Stock Exchange with stock code: 632) from October 2016 to October 2019. He has been appointed as a partner of Euto Capital Partners Limited since December 2019.

Mr. Cheung received his bachelor's degree in social sciences from the University of Hong Kong in 1984 and his master's degree in science (financial economics) from the University of London in 1995. Mr. Cheung resigned as an independent non-executive Director of the Company on 31 March 2020. He also resigned as the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr. Wu Chi Keung, aged 63, was appointed as an independent non-executive Director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund-raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently a managing director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive director of Jinchuan Group International Resources Co., Ltd (a company listed on the Stock Exchange with stock code: 2362), Central Development Holdings Limited (formerly known as Zhong Fa Zhan Holdings Limited, a company listed on the Stock Exchange with stock code: 475), Huabao International Holdings Limited (a company listed on the Stock Exchange with stock code: 336), Huajin International Holdings Limited (a company listed on the Stock Exchange with stock code: 2738) and Zhou Hei Ya International Holdings Company Limited (a company listed on the Stock Exchange with stock code: 1458). Mr. Wu was an independent non-executive director of COFCO Meat Holdings Limited (a company listed on the Stock Exchange with stock code: 1610) from 23 June 2016 to 12 December 2017 and also an independent non-executive director of YuanShengTai Dairy Farm Limited (a company listed on the Stock Exchange with stock code: 1431) from 7 November 2013 to 28 September 2018.

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

Mr. Leung Chong Shun, aged 54, was appointed as an independent non-executive Director on 13 December 2017. Mr. Leung became a practicing lawyer since 1991 and was the chief representative of Woo Kwan Lee & Lo Beijing Office. He is currently a partner of Woo Kwan Lee & Lo. Mr. Leung is familiar with corporate finance, M&A and IPO legal services and has been involved in various listing and acquisition transactions of Chinese H-share companies and red chip companies. Mr. Leung is currently a China-Appointed Attesting Officer appointed by the Ministry of Justice of the PRC. Mr. Leung was an independent non-executive director of China Communications Construction Company Limited (a company listed on the Stock Exchange with stock code: 01800) from January 2011 to November 2017 and China National Materials Company Limited (the listing with stock code: 01893 was withdrawn on the Stock Exchange) from July 2007 to April 2018. He is currently an independent non-executive director of SSY Group Limited (a company listed on the Stock Exchange with stock code: 02005), China Coal Energy Company Limited (a company listed on the Stock Exchange with stock code: 01898) and Min Xin Holdings Limited (a company listed on the Stock Exchange with stock code: 00222).

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

Ms. Luo, Laura Ying (formerly known as Ying Luo), aged 54, was appointed as an independent non-executive Director on 31 March 2020. Ms. Luo has 25 years of investment experience. She currently works as a consultant to GL Capital Management Limited. Ms. Luo was a managing director and head of Hong Kong China Equities at Barings Asset Management (Asia) Limited from 2013 to 2019. Her overall responsibilities included managing a team of investment managers and research analysts, as well as managing a range of Hong Kong and China equity strategies, including Barings' flagship Hong Kong China Fund, China A-share fund and some institutional mandates. Before joining Barings Asset Management (Asia) Limited, Ms. Luo worked for Schroder Investment Management (HK) Limited for over 12 years. Since 2002, Ms. Luo had been a lead manager on several Greater China equity mandates, including the Schroder International Selection Fund - China Opportunities, which she managed since its launch in 2006. Prior to Schroder Investment Management (HK) Limited, Ms. Luo had worked at SG Securities as head of China Research and Strategist, as well as at Morgan Stanley and Goldman Sachs (Asia) LLC, Hong Kong as an equity research analyst.

Ms. Luo obtained her Bachelor of Arts in International Economics from Peking University in 1987 and Master of Business Administration from the University of Toronto in 1991. She is a Chartered Financial Analyst (CFA) and Chartered Professional Accountant (CPA) (Canada) charterholder. Ms. Luo is the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company.

Company Secretary

Ms. Wu Sanyan, aged 38, joined the Group in 2009 and currently holds the position of Company Secretary and Director of the Legal Department of the Group. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules). The responsibilities of Ms. Wu since her joining the Group include advising on compliance of laws and regulations applicable to the Group (including the Listing Rules). Ms. Wu obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from Wuhan University. During the Reporting Period, Ms. Wu received professional training for no less than 15 hours to promote her skill and knowledge.

The Board of the Company is pleased to present the "Directors' Report" and audited consolidated financial statements of the Group for the year ended 31 December 2019.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 43 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 100.

Business Review

Business review of the Group for the year ended 31 December 2019 can be found in the section headed "Management Discussion and Analysis" of this Annual Report, the discussion of which forms part of this "Directors' Report".

Reserves

Movements in reserves for the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 103 and note 34 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2019, the Company had distributable reserves of RMB5,191.1 million available for distribution to the shareholders.

Property, Plant and Equipment

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

Share Capital

Movements in the share capital of the Company are set out in note 33 to the consolidated financial statements.

Final Dividend

The Board is pleased to recommend a final dividend of RMB0.1271 (equivalent to HK$0.139) per Share for the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on Wednesday, 10 June 2020. The register of members of the Company will be closed on Wednesday, 10 June 2020. The final dividend will be paid to shareholders on about Wednesday, 17 June 2020 after the shareholders' approval at the annual general meeting scheduled for Thursday, 4 June 2020 (the "AGM").

Dividend Policy

The Board has adopted a dividend policy (the "Dividend Policy"). Under the Dividend Policy, the Company does not have any pre-determined dividend payout ratio. Although the Company intends to declare and pay dividends in the future, the declaration, payment and amount of any dividends are subject to the Board's discretion having regard to the following factors: (a) the Group's actual and expected financial performance; (b) the Group's expected working capital requirements and future development plans; (c) the Group's liquidity position; (d) the economic outlook; (e) contractual restrictions or obligations; (f) shareholders' interests; and (g) any other factors the Board may consider relevant.

Such payment of the dividend by the Company is also subject to any restrictions under any applicable laws, rules and regulations and the Company's Articles of Association (the "Articles of Association"). The Company endeavors to strike a balance between the shareholders' interest and prudent capital management with a sustainable dividend policy. The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary. There is no assurance that the Company will pay dividends in any particular amount for any given period.

Pre-emptive Rights

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

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

None of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2019.

After the Reporting Period, in February 2020, the Company repurchased an aggregate of 9,648,000 ordinary shares with a nominal value of US$0.005 each on the Stock Exchange at an aggregate consideration of HK$98,164,100. All of the purchased shares were cancelled on 30 March 2020. The Board believes that given the current financial resources of the Company, the share repurchase would not affect the Company's solid financial position in any material respect, and it would lead to an enhancement of the net asset value per share and/or earnings per share, which is in the interest of the shareholders as a whole.

Details of the repurchase are as follows:

Month of Repurchase	Number of Shares Repurchased*	Price per Share (HK$)		Aggregate Consideration Paid (HK$)
		Highest Price	Lowest Price	
February 2020	9,648,000	10.30	10.04	98,164,100
Total	9,648,000	-	-	98,164,100

Directors

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

Executive Directors:

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

Independent Non-Executive Directors:

Mr. CHEUNG Kam Shing, Terry (resigned on 31 March 2020)
Mr. WU Chi Keung
Mr. LEUNG Chong Shun
Ms. LUO, Laura Ying (appointed on 31 March 2020)

Pursuant to Article 16.2 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall be eligible for re-election at that meeting. Ms. Luo, Laura Ying was appointed by the Board on 31 March 2020 as an independent non-executive Director. Accordingly, Ms. Luo shall retire from her office at the AGM and, being eligible, will offer herself for re-election at the AGM.

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

Pursuant to Code Provision A.4.3 of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, if an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Wu Chi Keung has served the Board for more than 9 years as an independent non-executive Director. Accordingly, Mr. Wu's further appointment shall be subject to a separate resolution to be approved by shareholders. Having taking into account the independent status of Mr. Wu, the Board is confident that Mr. Wu will continue to make valuable contribution to the Company by providing his balanced and objective views to the Board and therefore should be re-elected as an independent non-executive Director of the Company for a further term at the AGM.

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Mr. Lam Kong, Mr. Chen Hongbing, Mr. Wu Chi Keung and Ms. Luo, Laura Ying. Details of these retiring Directors will be set out in the circular expected to be issued by the Company on 6 May 2020.

Annual Confirmation of Independence

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

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 31 to 33 of this Annual Report

Directors' Service Contracts

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

Management Contracts

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

Employee Benefit Scheme

During the Reporting Period, approved by the Benefit Scheme Executive Committee of the Company, there were 4 employees participating in the CMS Key Employee Benefit Scheme. Details of the Employee Benefit Scheme are set out in note 42 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2019, none of the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract which is significant to the business of the Group to which is the Company or its holding company or any of its subsidiaries was a party.

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

As at 31 December 2019, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,102,844,000 (L) (Note 2)	44.46%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.81%
		Interest in controlled corporation	45,000,000 (L) (Note 3)	1.81%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.29%

Notes:

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

Directors' Right to Acquire Shares or Debentures

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

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

As at 31 December 2019, save as disclosed below, the Directors were not aware of any other person (other than the Directors or the Chief Executive of the Company) who held interests and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Citigroup Inc.	Person having a security interest in shares	40,543 (L)	0.00%
	Interest in controlled corporation	235,119 (L)	0.01%
		28,457 (S)	0.00%
	Approved lending agent	126,354,389 (L)	5.09%

Note:

1. The letter "L" denotes long positions in the Shares, the letter "S" denotes short positions in the Shares.

Connected Transactions

During the Reporting Period, there were no connected transactions or continuing connected transactions of the Company which are subject to any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Details of the related party transactions of the Group during the Reporting Period are set out in note 40 and 42 to the consolidated financial statements in this Annual Report. These related party transactions either fall outside the definitions of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules or are "connected transactions" fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Employees

As at 31 December 2019, the Group had 4,052 employees. The Group has initiated organizational reform and speeded up the cultivation and recruitment of talents through optimizing the current human resources and innovating the way of management to enhance the development of the Group. The Group has adopted a series of measures to facilitate employees' work efficiency and regularly assesses their performance. The Group provides employees with competitive compensation packages including salaries, bonuses, insurance and benefits. Salaries and bonuses are based on employees' performance and are measured against specific objective criteria. Additionally, the Group is committed to providing equal opportunities to all employees in all respects, and has made efforts in employees' continuing education and training programs to continuously enhance their knowledge, skills and team spirit.

Directors and Management's Emoluments

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

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

For the year ended 31 December 2019, emoluments of Company Secretary Ms. Wu Sanyan were between HK$500,000 and HK$1,000,000.

Key Relationship with Employees, Customers and Suppliers

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

The Company has good relationships with its customers and is always improving the communication mechanism with customers to ensure all complaints or feedback from customers can be fed to the Company a timely manner and the customers can receive service of high quality.

The Company maintains long-term good cooperation with domestic and overseas suppliers, which are reputable in the industry.

Environmental Policies and Performance

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

Compliance with Laws and Regulations

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

Principal Risks and Uncertainties

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

Compliance with GMP and GSP Standards

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

Product Liability

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

Healthcare Reform in China

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

Tender and Price Control

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

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

The successful development of innovative patented products, the obtaining of regulatory approval and the realization of commercialization are affected by a number of factors. These include but not limited to the sufficiency of resources to acquire or discover more drug candidates, the pre-clinical studies and clinical trial delays or failures, the uncertainties of the time that the approval process takes and the regulatory approval process, and, if the regulatory approval is obtained, whether the products can be promoted successfully and their acceptance by the market. If the R&D of innovative patented products fails, no regulatory approval is obtained or market acceptance is weak, the Group's future development may be affected adversely.

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

Major Customers and Suppliers

For the year ended 31 December 2019, the percentage of sales to the Group's five largest customers was approximately 29.2% of the Group's total sales, and sales to the top customer accounted for approximately 8.7% of the total sales.

For the year ended 31 December 2019, the percentage of purchases from the Group's five largest suppliers was approximately 87.8% of the Group's total purchases, and purchase from the top supplier accounted for approximately 27.5% of the total purchases.

Except as disclosed in note 40 to the consolidated financial statement, none of the Group's directors, their close associates or shareholders had an interest in the Group's suppliers or customers.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on pages 45 to 55 of this Annual Report.

Sufficiency of Public Float

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

Non-competition and Indemnity Agreements

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

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

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

Donation

During the Reporting Period, the Group had made donations of RMB0.2 million for charitable and other purposes, please refer to Community Dedication on page 85 for details.

Permitted Indemnity Provision

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

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

Equity-Linked Agreements

The Company has not entered into any equity-linked agreement during the year ended 31 December 2019.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the applicable CG Code from 1 January 2019 to 31 December 2019, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on pages 45 to 55 of this Annual Report.

Competing Interests

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

Audit Committee

The details of the Audit Committee are set out on page 48 of the Corporate Governance Report of this Annual Report.

Auditors

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

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

Hong Kong, 31 March 2020

Corporate Governance Report

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

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised CG Code as set out in Appendix 14 to the Listing Rules from 1 January 2019 to 31 December 2019, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

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

Directors' Securities Transactions

The Company adopted the Model Code as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2019. The Model Code also applies to other specified senior management of the Company.

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

Operation of the Board

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

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

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

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

Composition of the Board

For the year ended 31 December 2019, the Board consists of six Directors, including three executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; three independent non-executive Directors, namely Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Leung Chong Shun. Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, and Ms. Luo, Laura Ying was appointed as an independent non-executive Director of the Company on 31 March 2020. As at the date of this annual report, the Board consists of six Directors, including three executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Leung Chong Shun and Ms. Luo, Laura Ying. Biographical details of the Directors are set out on pages 31 to 33 of this annual report. Save as disclosed in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Board Attendances and Time Commitment

During the Reporting Period, the Company held eight Board meetings and one annual general meeting. The following is the attendance record of the Directors at such meetings held during the Reporting Period.

Name	Title	Attendance Rate	
		Board Meeting	Annual General Meeting
Mr. Lam Kong	Chairman and Chief Executive	8/8	1/1
Mr. Chen Hongbing	Chief Operating Officer	8/8	1/1
Ms. Chen Yanling	Chief Financial Officer	8/8	1/1
Mr. Cheung Kam Shing, Terry*	Independent Non- Executive Director	8/8	1/1
Mr. Wu Chi Keung	Independent Non- Executive Director	8/8	1/1
Mr. Leung Chong Shun	Independent Non- Executive Director	8/8	1/1

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.

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

Independent Non-executive Directors

For the year ended 31 December 2019, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

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

Directors' Continuous Professional Development

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

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

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

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

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.

Committees

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

Audit Committee

The Company established the Audit Committee in 2007. For the year ended 31 December 2019, the Audit Committee comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Leung Chong Shun as the committee members. Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, he also resigned as a member of the Audit Committee of the Company. Ms. Luo, Laura Ying was appointed as an independent non-executive Director and a member of the Audit Committee of the Company. As at the date of this annual report, the Audit Committee comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Leung Chong Shun and Ms. Luo, Laura Ying as the committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2019 of the Company have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2019, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2018 with the external auditors, the interim results for 2019, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meetings for the Year ended 31 December 2019
Mr. Wu Chi Keung	3/3
Mr. Cheung Kam Shing, Terry*	3/3
Mr. Leung Chong Shun	3/3

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.

Remuneration Committee

The Company established a Remuneration Committee in 2007. For the year ended 31 December 2019, the Remuneration Committee comprises three independent non-executive Directors, and is chaired by Mr. Leung Chong Shun, with Mr. Cheung Kam Shing, Terry and Mr. Wu Chi Keung as the committee members. Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, he also resigned as a member of the Remuneration Committee of the Company. Ms. Luo, Laura Ying was appointed as an independent non-executive Director and a member of the Remuneration Committee of the Company. As at the date of this annual report, the Remuneration Committee comprises three independent non-executive Directors, and is chaired by Mr. Leung Chong Shun, with Mr. Wu Chi Keung and Ms. Luo, Laura Ying as the committee members.

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

For the year ended 31 December 2019, the Remuneration Committee held two meetings. At the meetings, the Remuneration Committee reviewed and recommended adjusting remuneration of the Directors and senior management with reference to the industry standard, in light of the business advancement of the Group and according to their qualifications, experience and contributions, and considered that the proposed remunerations of whom were reasonable and appropriate. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meetings for the Year ended 31 December 2019**
Mr. Leung Chong Shun	2/2
Mr. Cheung Kam Shing, Terry*	2/2
Mr. Wu Chi Keung	2/2

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.

Nomination Committee

The Company established the Nomination Committee in 2007. For the year ended 31 December 2019, the Nomination Committee comprises one executive Director and three independent non-executive Directors, and is chaired by Mr. Cheung Kam Shing, Terry, with Mr. Lam Kong, Mr. Wu Chi Keung and Mr. Leung Chong Shun as the committee members. Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, he also resigned as the chairman of the Nomination Committee of the Company. Ms. Luo, Laura Ying was appointed as an independent non-executive Director and the chairman of the Nomination Committee of the Company. As at the date of this annual report, the Nomination Committee comprises one executive Director and three independent non-executive Directors, and is chaired by Ms. Luo, Laura Ying, with Mr. Lam Kong, Mr. Wu Chi Keung and Mr. Leung Chong Shun as the committee members.

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

For the year ended 31 December 2019, the Nomination Committee held one meeting. At the meeting, the Nomination Committee reviewed the composition and structure of the Board in order to determine whether it is in compliance with requirements under the relevant laws, regulations and rules and whether the diversity on the Board has been achieved and maintained, considered and made recommendations to the Board on the re-appointment of the retiring directors at the 2018 annual general meeting, and also assessed whether the independent non-executive Directors had spent enough time in fulfilling their duties and their independence. The committee is of the view that the current composition and structure of the Board comply with the applicable regulations and the Board is experienced and has diversified perspectives and views. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2019
Mr. Cheung Kam Shing, Terry*	1/1
Mr. Lam Kong	1/1
Mr. Wu Chi Keung	1/1
Mr. Leung Chong Shun	1/1

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.

Board Diversity Policy

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

As at the date of this Report, the Board's composition under major diversified perspectives was summarized as follows:

Designation	Executive Director		Independent Non-executive Director	
	3		3	
Gender	Male		Female	
	4		2	
Age Group	50 years old and below	51-55 years old	56-60 years old	61 years old and above
	1	4	0	1
Length of Service	2 years and below	3-5years	6-9 years	10 years and above
	2	0	1	3
Professional Background	Pharmaceuticals, Accounting, Investment, Law			

Corporate Governance Functions

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

Auditor's Remuneration

For the year ended 31 December 2019, we have appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for the service was HK$3.6 million.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2019. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The responsibility of auditor is set out in the independent auditor's report on page 97.

Risk Management and Internal Controls

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

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

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

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

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

Shareholders' Rights

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times has the right, by written requisition specifying the objects of the meeting and signed by the requisitionists to the Company's headquarters and principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The same requirement and procedure also apply to any proposal to be tabled at shareholders' meetings for adoption.

Shareholders' Enquiries

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

Articles of Association

During the Reporting Period, there were no changes made to the Articles of Association.

Communications with Shareholders and Investors

The Company attaches great importance to the communications with shareholders and investors as always. The Company endeavors to disclose information that is important to shareholders and investors timely and objectively through diverse channels. The Company also actively and effectively communicates the latest development of the Company to the capital markets. The Company interacts with its shareholders and investors mainly through following channels: (i) holding Annual General Meetings and Extraordinary General Meetings; (ii) timely releasing latest news and updates of the Company on the official website and WeChat official account of investor relations; (iii) replying various questions related to the Company's business raised by the shareholders and investors of the Company via various ways such as telephone and email; (iv) organizing the Interim and Annual Results Announcement Conferences; (v) participating in various conferences and roadshows held by sell-side institutions; (vi) organizing and receiving investors visits, and participating in conference calls. During the Reporting Period, the management of the Company and the investor relations team have received more than a thousand representatives of domestic and overseas institutions and individual investors.

The active and persistent communications with the shareholders and investors have been recognized by third parties. During the Reporting Period, the Company once again won the "Most Valuable Medical and Pharmaceutical Listed Company" Award of the Golden Hong Kong Stocks for the third consecutive year. Ms. Chen Yanling, the Executive Director, Vice President and CFO of CMS, was awarded the "Best CFO of Hong Kong Listed Companies" in the Gelonghui's first Best Listed Companies of Greater China Award. Moreover, the Company was honored as "The Best Investor Relations" at the first China Enterprise Excellence Awards Ceremony, and won the "Best Case Award" at the second China Excellence IR Awards Ceremony. Besides, CMS was honored with three awards, including "Top 10 Listed Companies with the Highest Investment Value in China Pharmaceutical Industry", "Top 100 Innovative Pharmaceutical Enterprises in China", and "Benchmarking Enterprises in Pharmaceutical Industry at the 70th Anniversary of PRC Founding" at the China Healthcare Summit of Entrepreneurs, Scientists and Investors. In 2018, the Company was successfully selected as one of "The Most Attractive Hong Kong Stock-Connect Companies for Institutional Investors", and won the Golden Wing Award of "Hong Kong Stock-Connect Company with the Most Substantial Growth Potential" held by the *Securities Times.* Furthermore, the Company was also recognized as the "Honored Company" in the healthcare and pharmaceutical industry by the *Institutional Investor Magazine ("II Magazine")*. Ms. Chen Yanling won the Third Place of "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry", which was the seventh consecutive time for Ms. Chen Yanling being awarded. In 2017, CMS won the "Best Investor Relations Management" of the Golden Hong Kong Listed Companies. During the same year, the Company was named the "All-Asia Most Honored Company" by *II Magazine.* Mr. Lam Kong, Chairman, Chief Executive and President of CMS, was awarded the Second Place of "All-Asia Best CEO (Overall) in Healthcare and Pharmaceutical Industry", which was the second consecutive time for Mr. Lam Kong being awarded. Also, CMS's investor relations team won the Second Place of "All-Asia Best Investor Relations (Overall) in Healthcare and Pharmaceutical Industry", which was the third time for CMS investor relations team being awarded. In December 2017, the Company was once again awarded "The Listed Company with the Best Investment Value" of BIVA for the second consecutive year. In 2016, CMS's investor relations team won the Second Place of "All-Asia Best Analyst Days (Overall) in Healthcare and Pharmaceutical Industry" organized by *II Magazine.* In 2015, the Company was awarded "The Best Listed Company" at "The 5th Chinese Securities Golden Bauhinia" Award Ceremony held by *Ta Kung Pao* in Hong Kong, and the "Best Investor Relations" in the healthcare industry in Greater China by *IR Magazine*.

In the future, we will continually maintain close, sincere and effective communications and interactions with investors, listen attentively to the feedbacks and voices from the capital markets, and further optimize investor relations.

1. About the Report

The Report is the fourth environmental, social and governance ("ESG") report of CMS, dating from 1 January 2019 to 31 December 2019. The Report is disclosed annually.

1.1 Basis of Preparation

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

The contents of the Report were formulated through systematic procedures, including: project kickoff, cross-functional communication, review of 2018 stakeholder questionnaires, review and ranking of the ESG material issues, setting of 2020 ESG management goals, determination of the disclosure scope of the Report, discussion and participation of the Board of Directors, collection of relevant information and data, review of the relevant information and data, preparation of the Report, Board of Directors' review and final approval.

1.2 Scope of the Report

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

1.3 Data Source and Reliability Statement

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

1.4 Confirmation and Approval

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

1.5 Obtaining the Report

The Report, as a part of the Group's 2019 Annual Report, can be accessed and downloaded from the Stock Exchange's website (www.hkexnews.hk) and the Group's website (www.cms.net.cn). For further consultation, any opinion or suggestion of the Report, please contact the Group via ir@cms.net.cn.

2. ESG Management

As a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China, CMS is committed to offering competitive products and services to meet China's unmet medical needs. The Group undertakes "carrying out the concept of environmental protection, achieving the value of social responsibility, being committed to becoming a leading sustainable pharmaceutical enterprise in China" as its goal of sustainable development, and fulfills the core values of "value creation for customers, global reach for innovation, dedication and perseverance, ethics and integrity, professionalism and entrepreneurship".

2.1 ESG Governance

In order to continuously improve its overall ESG management level, CMS has formulated and gradually enhanced a three-tier ESG governance framework to carry out the ESG management as shown in Figure 1:

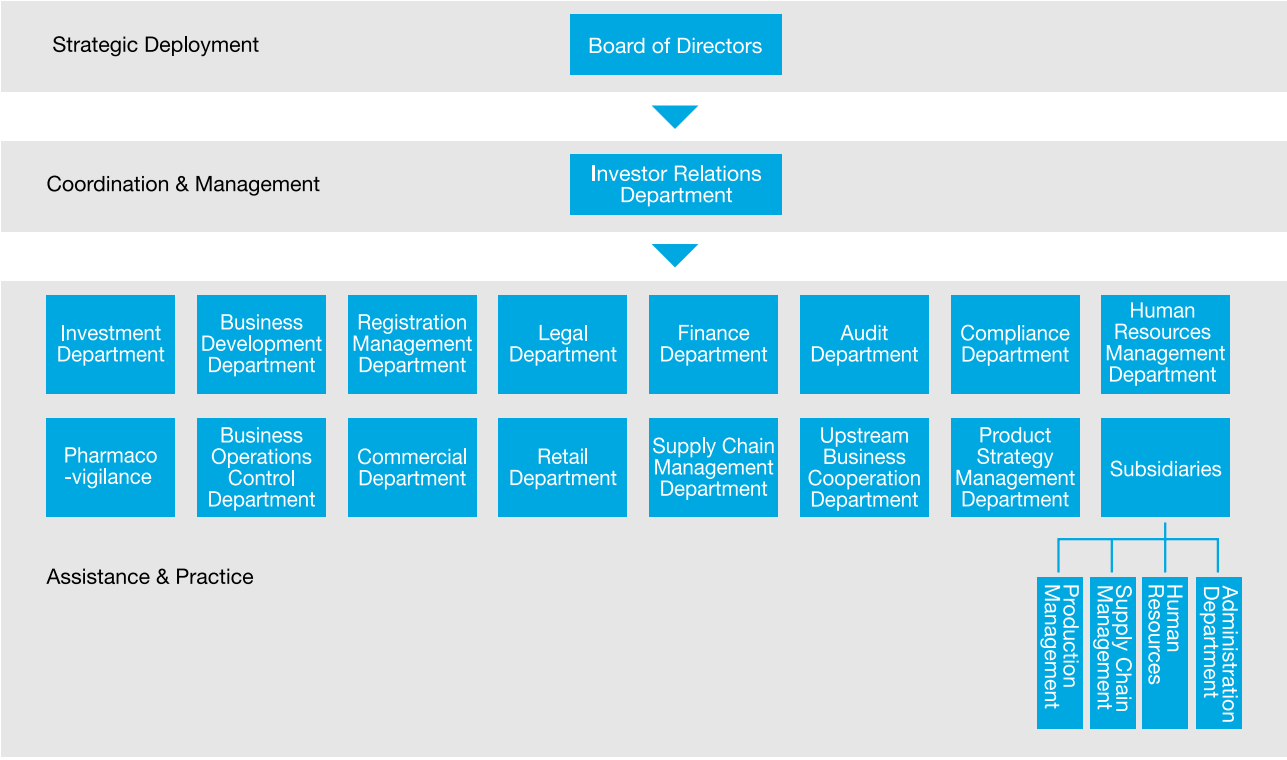


Figure 1 CMS's ESG Governance Framework

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

The Group's ESG management work follows a closed-loop process: first, setting the annual ESG management goals; then making the corresponding ESG management measures and plans based on the ESG management goals; conducting daily ESG management, monitoring dynamic ESG information and drafting annual ESG report based on the measures and plans; making and implementing supporting improvement plans for issues existing in ESG management practice based on the annual ESG report preparation workflow and in consideration of internal communication, internal audit and stakeholders' concerns; checking work performance at the end of the year, and making adjustments and formulating new goals in time according to the latest progress.

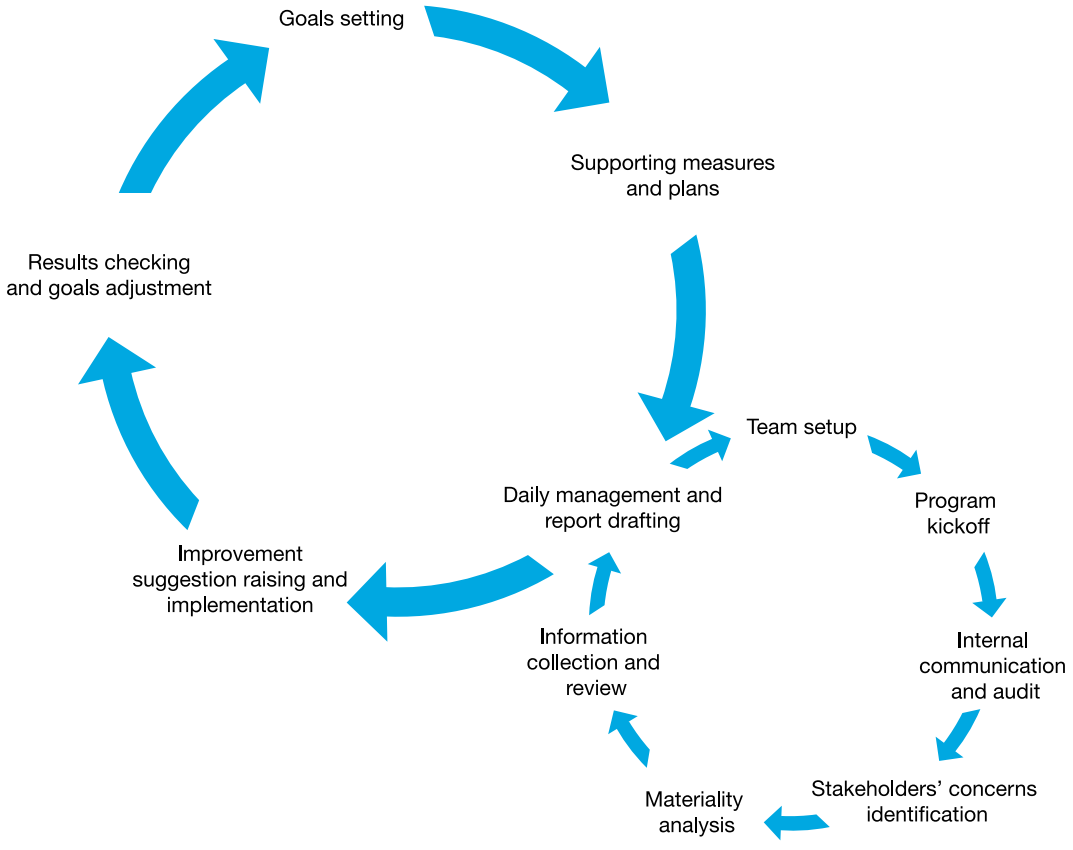


Figure 2 CMS's ESG Management Flow Diagram

2.2 ESG Goal

The Group attaches great importance to ESG goals management. In December 2019, the Board of Directors comprehensively reviewed the achievement of CMS's ESG goals for the year and formulated the ESG goals for the next year. See below for CMS's 2019 ESG management condition and 2020 ESG management goal.

Table 1 CMS's 2019 ESG Management Condition and 2020 ESG Management Goal

2019 ESG Management Condition	2020 ESG Management Goal
The Board of Directors participated in and discussed the ESG governance; had a definite ESG management framework, working group, and working process	Deepen the engagement of the Board of Directors in ESG governance; improve the ESG governance framework and mechanism, to further raise the attention of the concept of sustainable development within the Company and increase the number of ESG related training programs; further improve the ESG related management system and policies
Established relatively comprehensive compliance and anti-corruption related policies and management structure; implemented compliance management using digital technical platforms; further revised and clarified the anti-corruption system and whistleblower protection system	Further improve the rules and regulations on compliance management, practice compliance management and control by using abundant management tools, optimize risk management and internal control processes; improve and promote anti-corruption related systems, and increase management intensity, to achieve comprehensive management and control of compliance operations
Comprehensively controlled the procurement, production, storage, transportation, sales and other product quality related sections, and improved the traceability system; sought for innovative products with a global view and focused on unmet clinical needs in China	Uphold continuing quality improvement and quality first to improve product quality management constantly; strengthen the continuous construction and improvement of the intellectual property protection; constantly promote innovative research and development
Established good communication, cooperation and supervision mechanisms with suppliers	Further improve the hierarchical management of suppliers and the supervision and management of their environmental and social risks, formulate corresponding regulatory documents
Provided relatively comprehensive safety, health, development, training, compensation and welfare systems for employees	Deeply understand the demands of employees, constantly optimize organizational atmosphere; increase the number of training for the management and employees; improve the compensation and welfare system and the promotion mechanism to reinforce employee satisfaction
Implemented the concept of environmental protection through training; strengthened internal audit related to environmental protection, and controlled and managed emissions and utilization of resources	Enhance environmental awareness among all employees, expand the coverage of environmental protection training; and gradually formulate quantitative environmental goals to promote the Company's energy conservation and emission reduction

2.3 ESG Communication

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

Table 2 CMS's Stakeholder Communication Methods

Stakeholder	Communication Appeal	Communication Method
Governmental and regulatory authority	• Compliance with laws and regulations, drug safety • Compliance operation under supervision • Taxation, employment creation	✓ Government-company seminar ✓ Supervision and inspection ✓ Work report and research
Investor/Shareholder	• Standardized governance, rigorous risk control • Stable operation, value creation • Disclosure compliance, openness and transparency	✓ General meeting ✓ Operation information, announcement and periodic report ✓ Telephone, fax, email, internet-voting for general meeting ✓ Company official website and WeChat official account ✓ Investor visit, meeting and presentation ✓ External road show
Supplier	• Open and fair procurement • Timely communication, win-win developments	✓ Face-to-face meeting and mutual visit ✓ Work meeting and communication via telephone and email ✓ Company official website ✓ Industrial seminar ✓ Public bidding
Distributor	• Operation with integrity, compliant products • Timely communication, win-win developments	✓ Work meeting and communication via telephone and email ✓ Company official website ✓ Customer service hotline ✓ Face-to-face meeting and mutual visit
Employee	• Protection of rights and interests • Employees caring, respond of employee appeals • Remuneration packages, training and development	✓ Occupational health and safety training ✓ Team building activity ✓ Feedback platform ✓ Daily communication and meeting
External practitioner in the pharmaceutical industry	• Product safety, protection of rights and interests • Protection of privacy, business ethics	✓ Disclosure of product label and other information ✓ Academic conference ✓ Processing of customer complaint and feedback
General public	• Good interaction, information transparency • Product safety, protection of rights and interests • Privacy protection, business ethics • Public welfare and charity • Community development • Social value	✓ Disclosure of product label and other information ✓ Handling of consumer complaint and opinion ✓ Implementation of public service activities ✓ Propaganda of medicine and health knowledge ✓ Company official website

2.4 ESG Materiality Analysis

Since CMS did not undergo material changes in its business operations or ESG management this year, the Group has invited professional consultants to review and assess issues on the sustainable development of the Group during the preparation of the ESG report this year. Based on the feedback of the stakeholders on the existing issues and the comparison with the list of ESG material issues of the peer companies, alongside the consideration of the analysis of the ESG material issues in the previous year, the Group has sorted, updated and summarized the material issues for the year concerning its sustainable development, which constitute the documentation basis of the Report.

Materiality Assessment Procedure

- Construction on a library of issues: updated and enhanced the CMS 2019 ESG material issues list based on the *Environmental, Social and Governance Reporting Guide* of the Stock Exchange, the review of previous ESG related issues and the Group's conditions of the year, the development of the pharmaceutical industry and the stakeholders' concerns;
- Review and approval: submitted the materiality assessment report to the Board of Directors, who reviewed and approved it subsequently.

Based on the results of issue analysis, peer benchmarking, and discussions among the Board of Directors, the Group has ranked the materiality of each issue as follow:

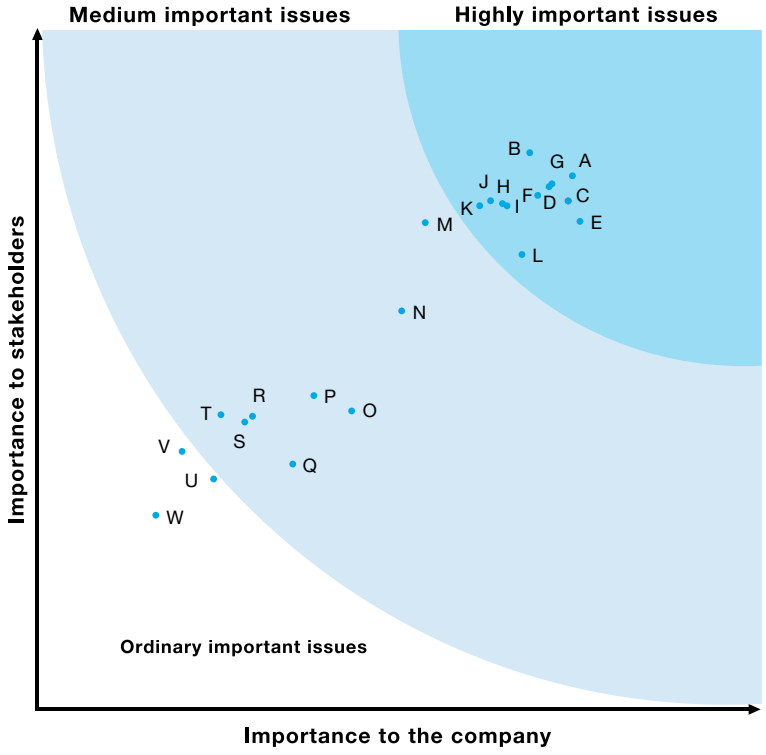


Figure 3 CMS's ESG Materiality Analysis Matrix

The materiality assessment of 2019 ESG issues for CMS found 12 highly important issues, 8 medium important issues and 3 ordinary important issues, the details of which are listed below:

Table 3 CMS's Materiality Analysis List

Importance of issue	Issue scope	Issue No.	Issue
Highly important issue	Company governance	A	Ensuring product and service quality
	Company governance	B	Caring about employee safety and health
	Company governance	C	Compliance operation
	Company governance	D	Improving the pharmacovigilance and drug recall mechanism
	Company governance	E	Providing competitive salary
	Company governance	F	Protecting of intellectual properties
	Company governance	G	Strengthening innovative research and development
	Company governance	H	Constructing a good company governance system
	Company governance	I	Employees training and development
	Company governance	J	Compliance employment
	Company governance	K	Protecting customer rights, interests and privacy
	Company governance	L	Improving the anti-corruption and anti-bribery system
Medium important issue	Company governance	M	Promoting the sustainable development of supply chain
	Social responsibility	N	Promoting the advancement of the medical progress
	Environmental protection	O	Proper treatment of solid waste
	Environmental protection	P	Making guidelines and setting goals for environmental protection work
	Environmental protection	Q	Pollutant emission and management
	Environmental protection	R	Energy conservation
	Environmental protection	S	Water conservation
	Social responsibility	T	Participation of public welfare charity, disaster relief activities and others
Ordinary important issue	Environmental protection	U	Saving packaging materials
	Social responsibility	V	Supporting community development
	Environmental protection	W	Reducing greenhouse gas emissions

Based on the assessment results, the Group has documented the ESG Report to respond to stakeholders' concerns in an orderly manner.

3. Compliance Operation

The Group always attaches importance to compliance management and strictly abides by the applicable laws and regulations, including but not limited to the *Law of the People's Republic of China on Anti-Money Laundering, Law of the People's Republic of China Against Unfair Competition, Criminal Law of the People's Republic of China, Interim Provisions on Banning Commercial Bribery* of the State Administration for Industry and Commerce, Hong Kong *Prevention of Bribery Ordinance*, etc. During the Reporting Period, the Group has introduced the 2019 version of the *CMS Anti-fraud Management Policy,* an updated version of the Group's *Anti-fraud Management Policy* issued in 2015.

The Group continues to promote its compliance management with comprehensive policy system, complete organizational structure, definite department positioning, and digital technology platform. The Group also attaches great importance to anti-corruption. It has established a relatively comprehensive anti-corruption behavior regulation system, training system and supervision system, and continuously improved the whistleblower protection system, optimized risk management and internal control mechanisms, so as to achieve comprehensive management and control of compliance operation.

3.1 Compliance Marketing and Promotion

The Group has established a complete, top-bottom compliance management framework, including core elements such as compliance rules and regulations, compliance team, compliance training, compliance inspection, compliance communication and reporting. And the Group also has a smooth management process covering marketing and sales compliance and all the functional departments.

3.1.1 Compliance Rules and Regulations

The Group adheres to the concept of compliance marketing and sales, and operates business under strict ethics standards and professionalism. The Group has formulated relatively comprehensive internal compliance promotion rules and regulations, Standard Operating Procedures (SOPs), such as the *CMS Employee Code of Professional Ethics, Code of Promotional Conduct, Speaker Regulations,* and *General Specification on Market Activities* to achieve omni-directional compliance management.

3.1.2 Compliance Training

The Group is well aware of that strengthening and implementing the Group's compliance training system is an indispensable part of its compliance management. Accordingly, the Group has established a compliance training system covering all employees, including all promotional staff in each region. During the Reporting Period, a total of 28 online and offline compliance training programs were conducted. The Group's employees received specific modules of training program since they were hired. Online training has been conducted when the latest compliance-related policies were published, and the latest compliance information has been disclosed monthly on the internal communication platform as well. Moreover, the "I want to ask compliance questions" column has been established to publicize compliance laws and regulations, the Company's policies combined with practical cases.

3.1.3 Compliance Inspection, Communication and Reporting

The Group's Compliance Department periodically inspects compliance operation and conducts KPI assessments based on the results of each inspection. There are regional compliance teams and regional financial compliance officers in each region to carry out refined compliance management. Based on the existing Compliance Department, the Group has established the Compliance Committee during the Reporting Period for better coordination and management of compliance operation. Chaired by Mr. Lam Kong, the Chairman of the Group, the Committee is composed of ten other senior managers, including the Group's executive directors, the respective director of the Legal Department, the Compliance Department and the Marketing Division of Product Strategy Management Department. The responsibility of the Compliance Committee is to coordinate and supervise the Group's compliance management in operation. The reports on the overall performance of the Group's compliance work will be submitted by the Compliance Department and discussed at the Compliance Committee's quarterly meeting.

3.2 Anti-corruption

3.2.1 Anti-corruption Management

The Group provides a clear code of working behavior for each employee, forbidding employees to engage in any improper behavior such as bribery, corruption, extortion, fraud, or money laundering while interacting with internal and external stakeholders. When the employee is found with improper behaviors, the promotion of the employee will be affected. In serious circumstances, warning or dismissal will be considered.

The Group has established and strictly implemented an anti-corruption training system. The anti-corruption-related materials are provided to employees in the quarterly new employee training program and compliance training program. During the Reporting Period, a company-wide study of the *CMS Anti-fraud Management Policy* has been conducted from director to employee level. The number of participants has reached 3,278, and the learning program is still ongoing.

The Group has established a multi-dimensional behavior regulation and supervision system to prevent internal and external improper business practices. In addition to the Group's Compliance Committee and the Compliance Department, the Finance Department formulates financial management measures based on the compliance framework and strengthens process management via the intelligent cloud system. These initiatives are installed to enhance the transparency of expenses and the compliance of promotion activities of the departments engaged in sales and marketing. In addition, the Legal Department controls and prevents legal risks for the Group.

During the Reporting Period, the Group's rigorous and thorough anti-corruption system ensured that no corruption lawsuits against the Group. The Group did not violate any related laws or provisions that significantly impacted the Group in the aspects of anti-bribery, extortion, fraud and money laundering.

3.2.2 Whistleblower Protection

The Group encourages employees to report and complain about corruption acts via phone and email. The Group has established a detailed reporting system and procedures. The reports will be discussed on a case-by-case basis and handled hierarchically. The employees involved are required to evade, ensuring fairness and impartiality of the cases processing. Definite responses and feedback will be given to the whistleblower within three business days after the completion of the investigation.

The latest *CMS Anti-fraud Management Policy* released by the Group further defined the whistleblowers protection system. The Group will take detailed confidentiality measures to protect the whistleblowing-related documents and the whistleblower's personal information. The Group will not disclose his/her identity without the consent of the whistleblower. Anyone who intends to inquire about any related information other than the whistleblower's personal information should register in the Compliance Department. The Group will ensure that employee who reports any of the above matters will not be subject to any form of intimidation, retaliation or inappropriate punishment. Harassing or harming the whistleblower will be considered as severe misconduct and punished seriously once confirmed.

4. Product Liability

The Group strictly complies with the applicable national laws and regulations such as the *Drug Administration Law of the People's Republic of China, Regulations for Implementation on Drug Administration Law of the People's Republic of China* and is dedicated to providing competitive products and services. Guided by "Quality first, Consumer first, Procedure management, Continuous improvement", the Group continuously improves product quality management and customer service system to improve customer satisfaction. Based on evidence of evidence-based medicine and authoritative academic profile of drugs, the Group carries out market activities in a compliant, scientific, and responsible manner. The Group also comprehensively promotes innovative research and development to facilitate the progress of public health.

4.1 Quality and Safety of Products and Services

In terms of health and safety, advertising, labeling, privacy, intellectual property and remedial measures for products and services, the Group strictly abides by the applicable national laws and regulations including but not limited to: *Provision for Drug Registration, Provisions for Medical Device Registration, Good Manufacture Practice of Drugs, Measures for the Supervision and Administration of Drugs Production, Provisions for Supervision of Drug Distribution, Good Supplying Practice of Drugs, Administrative Measures for the Import of Drugs, Provisions for Adverse Drug Reaction Reporting and Monitoring, Provisions for Drug Insert Sheets and Labels, Advertisement Law of the People's Republic of China, Interim Measures on the Examination and Administration of Advertisement for Drugs, Medical Devices, Health Foods and Foods for Special Medical Purposes* and the *Law of the People's Republic of China on Safeguarding the Consumer Rights and Interests.*

In accordance with the laws and regulations and the requirements of Good Supply Practice of Drugs ("GSP"), the Group has established quality management system for drug production and operation. It adopts effective quality control measures in the entire drug production process and operation processes, including procurement, storage, transportation, sales, etc. to ensure product quality and safety. The drug quality management policy system of the Group includes *Regulations on Drug Procurement, Regulations on Drug Reception, Regulations on Drug Check and Acceptance, Regulations on Drug Storage, Regulations on Drug Maintenance, Regulations on Drug Transportation, Regulations on Drug Sale, Regulations on Quality Inquiry, Regulations on Quality Complaints,* and *Regulations on Drug Recall.* The whole process management was realized.

4.1.1 Safety and Quality Assurance

The finished products promoted and sold by the Group are mainly manufactured in countries of manufacturing origins (the suppliers) such as Germany, Denmark, the United Kingdom, France and China to ensure product quality maximally. A small fraction of the rest are self-produced (during the Reporting Period, self-produced products only accounted for around 4% of the Group's total sales excluding the effect of the "two-invoice system"). All products promoted and sold by the Group have been registered and approved by the NMPA. 100% of the subsidiaries with core business in pharmaceutical promotions and sales have been GSP certified with validity, and 100% of the subsidiaries with core business in pharmaceutical manufacturing have been Good Manufacturing Practices ("GMP") certified.

The Group has established job responsibilities, job requirements, and evaluation systems for employees engaged in drug procurement, storage, and quality inspection. The Group also conducts job-related knowledge training regularly. In 2019, the Group provided training in respect of the *Law of the People's Republic of China on Drug Administration* (amended in 2019) for the relevant employees. The training covered more than 3,000 attendances company-wide. All the measures ensure that drugs are always under safe and standardized management and control.

In the production process for self-produced products, the Group conducts strict inspection of the incoming raw materials, including information crosschecking and sampling. Only the raw materials that have passed the examination will be accepted, the whole process of which is monitored by the specialized staff. Equipment that meets the requirements is used for inspecting raw materials and finished products, and an Inspection Report will be issued when the examination has been passed. These initiatives are instituted to ensure compliance with the national standards for drugs. The Group establishes a traceable product and material database. In the case of unqualified raw materials or finished products, they will be handled according to the procedure on unqualified products management. At the same time, a special investigation team will be set up to investigate the cause and rectify it.

For the purchased finished drugs, the Group conducts strict inspection as per GSP requirement, and examines the inspection reports of the same batch (such as Import Inspection Report and/or Inspection Report of Manufacturer) to ensure quality compliance with national requirements. Once a quality deficiency is found, the Quality Management Department will report it in writing. When the products are confirmed as unqualified, the Storage and Logistics Division of Supply Chain Management Department will transfer the products to the "unqualified zone" for separate storage and special custody. And these products will be recalled and returned to the suppliers, or applied to be discarded or destroyed if necessary after evaluation. Usually the products in the "unqualified zone" will be destroyed annually.

The Group has 24 finished drug warehouses all equipped with corresponding storage facilities and equipments. The Group assigns drug maintenance staff to keep the drugs according to their quality characteristics strictly under requirements of the regulations including *Regulations on Drug Storage* and *Regulations on Drug Maintenance.* The maintenance staff constantly monitors the warehouse temperature and humidity and the storage condition of the drugs, conducts regular inspections on and maintenance of facilities and equipment, as well as conducts a summary analysis quarterly. Before the delivery and sales of the finished products, the Storage and Logistics Division of Supply Chain Management Department conducts a warehouse-out rechecking based on regulation requirements, to ensure package integrity and product safety. During the Reporting Period, the Storage and Logistics Division of Supply Chain Management Department also completed annual staff training on drug storage knowledge, combined with monthly inspections, to confirm the drugs' storage safety. The Quality Management Department of the Group conducts at least one internal audit of warehousing per year, evaluating the status of warehouse hygiene, drug stacking, bulk goods storage and monitoring the improvement process.

The Group has self-built a computerized information management system that complies with GSP requirements to apply effective quality control in the processes of procurement, storage, sale, and transportation of drugs to ensure drugs' quality.

4.1.2 Handling of Consumer Complaints and Product Adverse Reactions

The Quality Management Department oversees product quality complaints. The Group has established the *Provisions for Quality Complaints* and *Operation Procedures for Quality Complaints.* The Group also provided specialized reporting channels and methods for drug quality complaints and adverse reactions/events. Customers can complain or report to the Group via telephone, fax, email etc. After receiving complaints, the Quality Management Department will timely record the relevant information in the complaint record system and handle the complaints hierarchically. Having gone through the process that includes investigation, timely follow-up, archive filling and others, the complaints will be effectively handled, and the feedbacks will be provided to the complainant timely.

The Group has set up a pharmacovigilance team for establishment and improvement of the pharmacovigilance system to fulfill the duty and obligation of pharmacovigilance. The team collects, handles and reports safety information about adverse reactions/events and abides by the applicable SOPs such as *Management Regulations on Drug Adverse Reaction Reporting and Monitoring* and *Operation Regulations on Drug Adverse Reaction Reporting and Monitoring* to implement the requirements of the regulatory authorities and fulfill the duties of the domestic and overseas drug/medical device marketing license holders (and/or pharmacovigilance agents designated by the domestic and overseas drug/medical device marketing license holders). After being informed of the adverse reaction/event, the pharmacovigilance team will follow the applicable management procedures and SOPs, to manage and monitor the adverse reaction/event with the digital pharmacovigilance system. It will timely and truthfully record adverse reaction/event, investigate, analyze, assess and summarize, then report to the regulatory authorities as required, fulfilling obligations of the security data exchange stated in the relevant agreement. The Group periodically evaluates product risks in accordance with the *Operation Procedures on the Preparation, Review, Submission and Tracking of the Report on the Periodic Safety Update of Drugs and the Annual Report on Adverse Reaction Monitoring* and *Operation Regulations on Drug Safety Signal Detection,* and conducts safety management of the product life cycle. The Group maintains close communication with the domestic and overseas drug/medical device marketing license holders and the regulatory authorities to ensure continued compliance of pharmacovigilance work and patients' medication safety.

During the Reporting Period, the Group received a total of 150 complaints. The Group has ensured that all complaints were effectively handled and responded, and has made relative improvement in time. Therefore, the Group maintained a complaint handling rate of 100% during the year.

4.1.3 Product Recall

The Group has established and continuously improved the *Provisions on Drug Recall* and *Operation Procedures on Drug Recall* for the recalling of drugs with safety risks that are circulated in the market basing on the relevant regulatory requirements. If there is a potential safety hazard in product, the Group will immediately establish a recall work team to initiate the recall process. It includes full notification, submission of the relevant documents to the regulatory authorities, transportation of the circulated products, sealing of inventory, unified and isolated storage, full-inspection, full-process investigation, and written summary, etc. The Group has established a relatively comprehensive and mature recall mechanism and operating procedures, together with practicing simulated recall exercise, to ensure that defective products can be effectively recalled in an emergency, so that to protect customers' rights.

During the Reporting Period, the Group did not receive any sold and delivered product recalls due to safety and health reasons.

The Group's product and service quality data in 2019 is shown below:

Table 4 Product and Service Quality Data

	Unit	Year 2019
Response and handling rate for product and service quality related complaints	%	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0

4.1.4 Standardized Marketing and Promotion

The Group pays attention to marketing and promotion compliance and has established the *Speakers Regulations, Academic Promotion Materials Regulations, Drug Advertisements Regulations,* etc. to ensure the accuracy, professionalism and compliance of the promotional materials and the stringent compliance of advertising with the national rules and regulations. The contents of the Group's promotional materials are consistent with the instructions approved by the NMPA. They can only be published in professional magazines co-designated by the National Health Commission and the NMPA after being reviewed by related internal departments, and being approved by the Provincial Food and Drug Administration. At the same time, the Group has established the *Provisions for Label Control and Management* to ensure the drug classification and drug package labeling comply with the local laws and regulations, and *Operation Procedure of Design, Review and Approval of Printing Packaging Materials* has been formulated to ensure the label complying with registration approval requirements.

4.1.5 Consumer Privacy Protection

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

4.2 Protection of Intellectual Properties

The Group strictly abides by the applicable laws and regulations such as the *Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China,* etc. External trademarks and patents of the third parties are used in strict accordance with the applicable laws and regulations and with authorization obtained for business operation to avoid infringing others' intellectual property rights. The Group effectively protects and manages the proprietary intellectual property rights of CMS by monitoring the usage of registered trademark. The Group obtains the assets or rights of patented products in China and some Asia-Pacific countries mainly through equity investments and license-in. The Group treats intellectual property (such as trademarks, patents, confidential information, production know-how, etc.) as important assets of the Group. Moreover, all the company names, logos, and products of the Group have registered trademarks, which are regulated by the *CMS Code of Trademark Use.* The in-house developed ERP system is protected with software copyright. During the Reporting Period, the Group commenced further enhancement of policies of intellectual property protection.

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

4.3 Strengthening Innovative Research and Development

The Group treats innovative research and development as its core strategy. Holding a global view, the Group has deployed innovative products clusters with a relatively high innovation level and sufficient potential to fulfill unmet medical needs in China pharmaceutical market. During the Reporting Period, the Group has accelerated the deployment of a number of innovative products covering different therapeutic areas such as anti-tumor, ophthalmology, and dermatology. The Group is committed to caring for patients in various disease fields and providing them with more efficient, convenient and cost-effective quality products. Meanwhile, the Group actively explores extensive cooperation with the domestic and overseas leading pharmaceutical companies and scientific research institutions, in order to contribute to the innovation transformation of the China pharmaceutical industry. During the Reporting Period, the Group acquired nine innovative products with sufficient competitive edges and can fulfill unmet clinical needs in China, expanding the number of innovative products to eighteen. The Group has been actively working on the registration related work of these products in China market and looking forward to benefiting patients and their families who suffer from related diseases as soon as possible.

5. People-oriented Practice

In terms of employment (including remuneration, demission, recruitment, promotion, working hours, vacation, equal opportunity, diversity, anti-discrimination and other welfare and benefits), occupational health and safety as well as labor codes, the Group strictly conforms to the related national laws and regulations, which include but are not limited to the *Labor Contract Law of the People's Republic of China, Labor Law of the People's Republic of China* and *Regulations on the Implementation of the Labor Contract Law of the People's Republic of China.*

The Group deems its employees as the most valuable assets. The Group has established the *CMS Employee Manual* covering employment, performance, employee relations, remuneration and welfare to enhance employees' sense of responsibility and belonging. In accordance with laws and regulations, the Group ensures compliance employment, protects employee health and safety, promotes employee equality and diversity, constantly improves employee training and development systems, and provides a good working environment and atmosphere for employees. During the Reporting Period, the Group did not violate any applicable law and regulation that significantly impact the Group in terms of employment, occupational health and safety, and labor regulations.

5.1 Talent Management

5.1.1 Employment and Legal Compliance

The Group recruits employees legally and compliantly, complying strictly with the *Social Insurance Law of the People's Republic of China, Minimum Wage Provisions, Rules of the State Council on Working Hours of Workers and Staff Members, Special Rules on the Labor Protection of Female Employees, Special Rules on the Protection of Juvenile Workers, Provisions on the Prohibition of Child Labor* and *Law of the People's Republic of China on the Protection of Minors,* etc. The Group promises to sign, modify, rescind or terminate the labor contracts with employees as per the applicable national laws and regulations and its internal relevant rules and requirements. The employment relationship takes effect upon signing the labor contract out of free will and with agreement from both parties. The Group labor contract stipulates the authenticity of candidates' personal information. The Human Resources Management Department of the Group assures the legality of employment by checking the ID of each employee and other means. The Group conducts unified management with both regular and informal employees to ensure that they are treated fairly. During the Reporting Period, the Group employed no child labors or forced labors, and there was no downsizing as well.

The Group's employment and turnover data of employees in 2019 is shown as below:

Table 5 Employment Information

	Unit	Year 2019
Total employees	Person	4,052
- Number of male employees	Person	1,903
- Number of female employees	Person	2,149
- Number of contracted employees	Person	4,052
- Number of dispatched employees	Person	0
- Number of employees aged under 30	Person	2,150
- Number of employees aged 30-50	Person	1,782
- Number of employees aged over 50	Person	120

Table 6 Employee Turnover Rate

	Unit	Year 2019
Turnover rate of employees	%	18.6
- Turnover rate of male employees	%	19.9
- Turnover rate of female employees	%	17.3
- Turnover rate of employees aged under 30	%	20.1
- Turnover rate of employees aged 30-50	%	17.4
- Turnover rate of employees aged over 50	%	5.5

In addition, the Group strives for a fair, respectful and diversified working environment, and adheres to the principles of anti-discrimination and equal opportunity in human resources and recruitment decisions. The Group ensures that employees are not treated unfairly due to factors such as race, age, gender, religion, nationality, marital status, disability, etc. as per applicable national laws and regulations. The Group also establishes relevant complaint and punishment mechanisms for discrimination and harassment to ensure employees' rights. The Group has established the *Special Collective Contract for the Protection of the Rights and Interests of Female Employees* to protect the rights and interests of female employees. Female employees of the Group are entitled to statutory holidays during pregnancy, maternity and lactation, and are given reasonable care and consideration. The Group encourages equal-based communication. All employees may communicate with the management via the internal ERP platform, telephone and face-to-face dialogues. In addition, the Group conducts irregular employee satisfaction surveys. For instance, the Human Resources Management Department conducted employee satisfaction surveys in 2018 to understand employees' authentic concerns and working satisfaction. The timely feedbacks were submitted to the management with improvement made. The Group's subsidiaries also established their own labor unions to promote better protection of the employees' rights and interests, as well as increase joint channels for democratic communication.

5.1.2 Recruitment, Remuneration, Incentives and Promotion

The Group has established the *Social Recruitment Process* and *Campus Recruitment Process.* New employees are recruited through various measures such as campus recruitment, internal recommendation and online recruitment, etc. Standardized process from contacting to hiring candidates has been established as well. To ensure the hiring of high-quality and suitable talents that fulfill the internal talent demand, the Group conducts recruitment via multiple channels, together with the use of ERP system to follow the just, fair and open recruitment process.

Based on the concept of "strivers-oriented", the Group has established a fair remuneration system which leans towards the "posts and people who creates value". The Group dynamically reviews the employees' remuneration level according to the Consumer Price Index ("CPI") and compares internal and external remuneration levels once a year based on the remuneration report from professional consulting companies to ensure that employees receive fair and competitive salaries and remuneration. During the Reporting Period, the Group reformed the remuneration system comprehensively based on the guidance of "post-based grading, grade-based remuneration, person-post matching, and synchronized change of post and remuneration" and has adjusted the posts, ranks and wages of employees on basis of individual's quality evaluation. The Group has established incentive policies such as the "Hall of Honor Awarding System" and "Annual Incremental Reward Plan" to provide staged incentives.

The employee promotion within the Group is competitiveness-oriented and follows the talent promotion principle of "internal selection, step-by-step promotion, classified training, spiral rise, and anomalous promotion in special period". Fair, just and open promotion channels and opportunities are available for all employees. Employees may apply for management posts through internal competition and recommendation. The Human Resources Management Department regularly announces personnel appointment and removal notice to ensure the fairness and effectiveness.

5.2 Training and Development

The Group attaches great importance to the training and empowerment of its employees, and encourages employees to continuously improve their professional abilities and enterprising spirit to realize self-worth. By organizing various training activities, the Group systematically assists employees to improve their professional competence to promote the co-development of the employees and the Company. The Group has established policies such as *CMS Employee Manual, Provisions on Employee Training and Career Development, Provision on Employee Training Process,* and *Provision on Internal Instructor Training.* Moreover, the Group has expressively provided internal and external training to support the rapid growth of employees. Driven by such policies, the Group has formulated various annual training programs and organized diverse training activities based on industry environment, policy change, the development strategy of the Group, and the needs of each department. Meanwhile, in order to provide a good and centralized training environment and atmosphere for employees, the Group has established a specific training base in Pingshan, Shenzhen. In addition, the employees could learn conveniently and effectively through digital mobile tools. During the Reporting Period, the Group's total training expenditure was about RMB2.9 million.

Table 7 Main Contents of Internal and External Employee Training

Internal training	External training
• New employee training: each new employee must receive this training and pass the assessment • "Tutor System": a senior employee will be assigned as the tutor for the newly hired or transferred employee • Internal training: GSP/GMP training, business skills, business etiquette, corporate culture training, etc. • Compliance training: a deep understanding of compliance policies and rules, etc.	• External training refers to the training course organized and managed by any external entity which the employees apply to participate in according to employee's needs of work. Such trainings mainly include qualification training, thesis seminar, forum, study tour and field visit. The Company will bear the relevant expense incurred

The Group's training data in 2019 is shown below:

Table 8 Employee Training Data

	Unit	Year 2019
Total employees training expenditure	Million RMB	2.9
Coverage of employees training	%	83.0
- Training coverage of general employees	%	83.4
- Training coverage of senior management	%	35.3
Employees training duration per capita	Hours	34.1
- Training duration per capita for general employees	Hours	34.4
- Training duration per capita for senior management	Hours	3.2

5.3 Care for Employees

5.3.1 Occupational Health and Safety

The Group strictly abides by the laws and regulations on employee occupational health and safety, such as the *Work Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases,* and *Regulations on Work-Related Injury Insurances.* The Group has established and kept enhancing the employee safety protection system which is driven by safety rules and regulations, and composed by safety record, safety training, safety inspection, safety protection, health check, fire drill and daily maintenance. The system is designed to ensure production safety and occupational health through various methods. During the Report Period, the Group has no work-related fatalities.

Occupational health and safety system	Related implementation and monitoring methods
Safety rules and regulations	The *Regulations on Governing Safety Prevention Responsibility, Environment and Fire Emergency Plan, Provisions on Safety Production, Provisions on Crises Management, CMS Office Building Emergency Plan, Provisions on CMS Site Safety, etc.*
Safety record	Establishment of historical occupational safety and health records for employees; completed safety assessments of the storage and use of hazardous chemicals and reported to the safety supervision authority
Safety training	Establishment of a production safety training system for all employees including new hires, specialized operation personnel, safety management officers; formation of teaching-assessment training mode participated by Administration of Work Safety, fire control experts and internal experts; specialized operation personnel must regularly participate in professional training and assessment
Safety inspection	Regular organization of various safety inspections; establishment of production safety leading groups in production subsidiaries to implement work safety accountability system; organization and implementation of the "Production Safety Month" program; regular conduction of safety inspection in office sites to prevent accidents
Safety protection	Setting of safety warning signs and first aid kits; provision of suitable personal protective device for the employees in risky positions. For example, the provision of dust masks and respirators for employees in dusty posts
Health check	Provision of annual health check for all employees. During the Reporting Period, 100% of employees had voluntarily participated in the annual health check
Fire drill	Conducting of fire safety emergency drills to make employees more familiar with evacuation routes, learn the use of fire extinguishers, and improve their self-protection capability
Daily maintenance	Daily trifles to reduce employees' health risks, such as changing drinking water filters on a regular basis, the air-condition system maintenance, carpet cleaning and disinfection, insect and rat extermination, etc.

The Group's employees' health and safety data in 2019 is shown below:

Table 9 Employees' Health and Safety Data

	Unit	Year 2019
Working days lost due to work-related injury	Day	338
Number of work-related fatalities	Person	0
Proportion of work-related fatalities	%	0
Proportion of employees with occupational health checks	%	100

5.3.2 Employee Welfare

The Group, abiding strictly by laws and regulations, provides employees with five statutory social insurance schemes (basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance) and housing funds for employees who have established an employment relationship with the Group. In addition, the Group provides annual family visit subsidies for employees, housing subsidies to help solve the housing problems for fresh graduates, as well as Taikang group accident insurance, health check, employee community activities, overtime dinners, sports venues (such as badminton halls and swimming pools), and holiday gifts and benefits, etc. for employees. The Group implements flexible working hours, allowing employees to work remotely, and provides convenience to its employees in various ways. During the Reporting Period, the Group's headquarter opened a gymnasium for employees for free and also provided employees with an annual cruise conference celebrating the eighteenth anniversary of the Group. During the Reporting Period, the Group's employee benefit coverage rate was 100%.

6. Cooperation and Mutual Benefits

The Group attaches importance to the effective cooperation and management with suppliers and distributors to ensure the sustainability and safety of the drugs' quality development. The Supply Chain Management Department of the Group is responsible for ensuring the efficient operation of all sections of the supply chain, and the Quality Management Department is responsible for supporting the supervision of suppliers, to form a relatively comprehensive supply chain management system. The establishment of an effective supply chain management system could reasonably reduce the Company's operating costs, ensure product and service quality, diminish cooperation risks and ultimately achieve a mutually beneficial cooperation and sustainable development with upstream and downstream enterprises.

The Group has established the *Regulations on First-time Supplier Qualification Review, Operation Provisions on Internal Quality Audit* to regulate supplier management. Moreover, the Group has developed the *Regulations on Drug Procurement, Regulations on Procurement Planning and Review, Regulations on Auditing Supplier Salesperson Qualification, Provisions for Material Suppliers Management, Operation Procedure of Material Supplier Evaluation and Approval, Provisions for Material Procurement,* etc. to guide and standardize material and drug procurement, ensuring that the procurement plan is consistent with the operational demands.

Through long-term communication and business contacts, the Group has built the sustainable and stable strategic relationships with its suppliers and distributors, and established good communication mechanism with open dialogue and mutual trust. During the cooperation, the Group has fully communicated problems that lie within a reasonable scope with suppliers and actively assisted in rectification and improvement to realize mutual benefits and risk-sharing.

6.1 Supplier Management

Finished drugs account for the majority of the Group's procurement. The main suppliers are professional pharmaceutical manufacturers from Europe and Mainland China. The Group strictly controls the admission standards of suppliers, and inspects including but not limited to the following aspects: company scale and history, industrial reputation and competitiveness, production conditions, product category, quality and prestige, after-sales service, environmental protection, compliance and social responsibility, etc. Suppliers are required to provide relevant qualification certificates, including Drug Production License or Drug Operation License and Business License to ensure the compliance of its operation and effectiveness of the cooperation.

The finished drugs that the Group promotes and sells are introduced through asset purchase or long-term sales agreement, and the production is mainly conducted by the original factories or designated manufacturers. Therefore, the Group has sustained long-term and stable strategic relations with upstream suppliers. For the drug procurement from the first-time supplier, the Group firstly reviews the completeness, authenticity, and legal validity of the company profile, and organizes a site inspection when necessary and evaluates the supplier's quality management system. Once the suppliers are selected, the Group will sign a long-term supply agreement with them and conduct annual quality review. It mainly covers the drug supply condition (batch of supply, qualified batch, passing rate and return rate of drugs), supply qualification, salesperson qualification, and implementation of the quality assurance agreement and the purchase contract, transportation conditions, etc. then form a *List of Qualified Suppliers.* 100% of the Group's finished drug suppliers are managed in accordance with this standard.

All production material suppliers are selected as per the *Operation Provisions on Assessment and Approval of Material Suppliers.* The list of qualified suppliers will be determined through on-site assessment and audit of their qualification, capacity, technology, quality management system and executives. According to the degree of importance of materials, the Group implements hierarchical management of qualified suppliers, classifying them into three categories, namely A, B and C, and conducts annual inspections based on the supplying quality. The suppliers of Category A who have a significant impact on drug quality and safety shall receive an extra annual on-site auditing. The Group timely updates the suppliers list based on the results of the annual inspection and maintains at least two qualified suppliers for any production material to ensure the supply of materials in emergency. 100% of the Group's material suppliers are managed in accordance with this standard.

If the materials provided by the qualified supplier do not conform to the Group's requirements in the official procurement, the Group shall first conduct the re-inspection of the sample. If the sample fails the re-inspection, a nonconformity report will be issued and delivered to the supplier in time, and the nonconforming goods will be returned. Suppliers whose services or products fail to meet the Group's requirements twice a year will be disqualified. If any severe defect or significant quality risk is found, the purchasing will be suspended. During the Reporting Period, there was no significant product supply delay from the Group's suppliers.

The Group has established a mutual visit mechanism to strengthen communication with suppliers. During the Reporting Period, the Group invited core overseas suppliers to visit the company as well as visited the suppliers' factories. Both sides reviewed the cooperation history, discussed the future cooperation direction, and formulated new cooperation strategies.

The Group's supplier data in 2019 is shown below:

Table 10 Supplier Data

	Unit	Year 2019
Total number of suppliers	Number	101
- Mainland suppliers	Number	81
- HK SAR, Macau SAR, TWN and overseas suppliers	Number	20

6.2 Distributor Management

The Group has established the *Regulations on Purchaser Qualification Review, Operation Procedures on Purchaser Qualification Review* and *Selection and Assessment System of Distribution Cooperative Partners* to support the management of distributors. The distributors' screening standards include basic criterias (such as GSP qualifications, storage capacity, distribution capacity, staffing, and working capital, etc.), cooperation willingness, distribution channel coverage, market control, brand image, etc., fully guaranteeing the distributor's qualifications and compliance level, and ensuring product quality and intactness during the distribution process.

6.3 Sustainable Development of Supply Chain

The Group takes into account human rights, environmental and social factors in its regular annual inspections of suppliers. The Group tends to select the suppliers with green environmental protection concepts or relevant qualifications. If the candidates are on a par, the one in closer proximity will be preferred for more convenient transportation, reducing the potential pollution to the environment during the shipment. The Group stipulates definite anti-bribery and anti-corruption clauses in the contract with suppliers to ensure their compliance operations, and also precisely requires them to comply with the local regulatory requirements for operations and production to prevent relevant social risks. In addition, the Group signs quality assurance agreements with suppliers, which clearly demand the integrity of product quality and supply to achieve management of procurement integrity.

The Group prefers large-scale distributors who located in broader market and with comprehensive distribution channel coverage to reduce the negative impact on the environment in the logistics operation. The Group conducts a series of management measures and systems, and strives to ensure compliance and safety management of the supply chain. Concurrently the Group implements the concept of environmental protection, and fulfills requirements and responsibility of sustainable development.

7. Environmental Protection

The Group always keeps the corporate social responsibility in mind, insists on protecting the ecological environment and reduces the impact on the surrounding environment in the process of operation and development. The Group strictly abides by the applicable laws and regulations on environmental protection, such as the *Environmental Protection Law of the People's Republic of China* and *Environmental Impact Assessment Act of the People's Republic of China.*

The Group has established and continuously improved the environmental management system, and environmental protection responsibilities are fully implemented from the Group to its subsidiaries. The Group has established the *Regulations on Environmental Protection, Environmental Emergency Plan* and *Regulations on Hazardous Waste,* covering the environmental protection management framework, storage and transportation of hazardous waste, identification and management of accident with environmental pollutant such as fire, explosion. The Group has instituted an emergency mechanism with detailed solutions and responsible units for various risks.

During the Reporting Period, the Group conducted an internal audit of environment management. The Audit Department of the Group has led and organized the audit over subsidiaries' energy consumption, pollutant emission, environmental protection project construction, payment of environmental protection taxes, etc. to ensure a standardized environmental management. On a daily basis, the subsidiaries of the Group regularly supervise, inspect and evaluate their sanitation, water and electricity consumption, etc. In addition, the Group also actively cooperates with local governments and authorities such as environmental protection and animal husbandry departments, to conduct regular environmental inspections, and push forward the implementation of environmental management in every aspect.

7.1 Emission Control

The business of the Group mainly includes pharmaceutical promotion and network management business, pharmaceutical production business, and agriculture and livestock business. Among them, pharmaceutical promotion and network management are main businesses. Pharmaceutical production business is mainly carried out by Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Hebei Xili") and Pingshan Manufacture Base of Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Pingshan Factory") (where Pingshan Factory did not carry out any production during the Reporting Period, but mainly served as an employees' training base and for warehousing). The Group has small-scale pharmaceutical production business. During the Reporting Period, the sale of self-produced products only accounted for around 4% of its turnover after excluding the effect of the "two-invoice system". The agriculture and livestock business are mainly carried out by Hunan Kangzhe Agricultural and Livestock Development Co., Ltd. ("Hunan Agriculture and Livestock"). The products provided by Hunan Agriculture and Livestock are only for internal consumption and had no contribution to the Group's turnover during the Reporting Period. Due to the Group's business characteristic, the total amount of environmental pollutants produced was limited, and the impact on the environment and natural resources was insignificant. During the Reporting Period, the Group did not have any significant pollution incident.

7.1.1 Solid Waste Management

The Group strictly abides by the applicable laws and regulations such as the *Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution, Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes,* and *Standard for Pollution Control on Hazardous Waste Storage,* etc. The Group has also established the relevant internal management rules and regulations such as the *Procedures of Hazardous Solid Waste Management, Provisions on Quality-Control Laboratory Waste Management, Regulations on Toxic Products,* according to the applicability of the business type. During the Reporting Period, Kangzhe Hunan, a subsidiary of the Group, has revised the *Procedures of Hazardous Chemicals Management* to refine the qualification for the storage of hazardous products, established the ledger for the procurement and storage of hazardous chemicals, and continuously improved solid waste management rules and regulations.

Office waste	Pharmaceutical production waste	Agriculture and livestock waste
✓ Actively advocating green office culture, and promoting green awareness of environmental protection and low-carbon life; ✓ Continually implementing office waste classification, and regular handling of non-recyclable waste by the property company; ✓ Recycling or reusing paper, metal, plastic, glass and other recyclable waste to reduce office waste.	✓ Recycling the herb residues, which are mainly particle filter residues (lignin) and a small amount of insoluble extractives which are non-hazardous solid waste and are used for fuel or fertilizer; ✓ Adopting a refined production management model. Ordering and using chemicals according to the needs to reduce hazardous waste generation amount; ✓ Constructing oil separator and septic tanks for primary treatment of sludge to reduce impurities; ✓ Handling of toxic and hazardous waste by a third party professional with treatment qualification.	✓ Adopting automatic collection devices to collect animal excrement and making into organic fertilizers for crops through biological fermentation; ✓ Providing storage tanks to receive the drug residues from Kangzhe Hunan and mixing and fermenting with organic fertilizer at a certain proportion to produce efficient fertilizer for crops, realizing the ecological and organic recycling of waste.

The Group's solid waste data in 2019 is shown below:

Table 11 Solid Waste Data

	Unit	Year 2019
Hazardous waste	Ton	0.2
Hazardous waste intensity	Ton/million RMB	0.00003
Non-hazardous waste	Ton	1,676.8
- Herb residue	Ton	1,569.6
- Sewage sludge	Ton	11.7
- Household garbage	Ton	95.4
Non-hazardous waste intensity	Ton/million RMB	0.24

7.1.2 Air Pollutant Management

The Group strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Comprehensive Discharge Standard of Atmospheric Pollutants* and *Emission Standard of Boiler Air Pollutants,* and has established such internal management rules and regulations as the *Exhaust Gas Emission Management Procedures, Operation Regulations of Steam Boilers, Regulations of Boilers Management, and Operation Regulation of Exhaust Gas,* etc. to regulate the air pollutant treatment process and reduce the impact of exhaust emissions on the atmospheric environment.

During the Reporting Period, the Group continued to use clean energy for boiler operation: Kangzhe Hunan used natural gas and Hebei Xili used alcohol-based liquid fuel to run the boilers. At the same time, the Group continuously optimized its production plans to improve boiler operation efficiency to save energy and reduce emissions.

Kangzhe Hunan	Hebei Xili
✓ The exhaust gas of the natural gas boiler is delivered to the activated carbon absorption device to remove Nitrogen Oxide, Sulfur Dioxide, and Particulate Matter, followed by wet-spraying. Normative exhaust gas is discharged at a specified altitude. Wastewater of wet sprinkler device flows to the self-built sewage treatment station for treatment and recycling.	✓ Entrusting a third-party professional testing agency for quarterly sampling of the exhaust gas emitted by steam boilers. The monitoring results for the whole year of 2019 show that the exhaust emissions have met the requirement of the *Emission Standard of Boiler Air Pollutants.*

The Group's air pollutant emission data in 2019 is shown below:

Table 12 Air Polluant Emission Data

	Unit	Year 2019
Sulfur Dioxide (SO_2)	Kg	35.5
Nitrogen Oxide (NO_x)	Kg	1,612.6
Particulate Matter (PM)	Kg	245.5

7.1.3 Green House Gas (GHG) Management

Climate change has been one of the global focuses in recent years. The Group also realizes that it will impact the company's production and operation profoundly and therefore it is necessary to identify the potential crisis in depth brought by climate change. The Group has been actively using clean and efficient energy sources and conducting a series of measures to reduce direct and indirect GHG emissions. During the Reporting Period, the Group's total GHG emission intensity was 1.42 Ton CO_2e/million RMB, a decrease of 11.3% compared with the same period last year. The detail of relevant measures in GHG emissions reduction is written in the *7.2 Resources Management* section. The Group's direct GHG emissions mostly come from the energy consumption of natural gas, alcohol-based liquid fuels, gasoline, diesel oil, etc. and the indirect emission of the purchased electricity.

The Group's GHG emission data in 2019 is shown below:

Table 13 GHG Emission Data

	Unit	Year 2019
Direct GHG emission (Scope 1)	Ton CO_2e	5,854.1
Indirect GHG emission (Scope 2)	Ton CO_2e	3,952.2
Total GHG emission (Scope 1+2)	Ton CO_2e	9,806.3
Total GHG emission (Scope 1+2) intensity	Ton CO_2e /million RMB	1.42

7.1.4 Wastewater Management

The Group strictly abides by the *Law of the People's Republic of China on Prevention and Control of Water Pollution, Integrated Wastewater Discharge Standard, Wastewater Quality Standards for Discharge to Municipal Sewers, Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants,* and established the *Operation Regulations of Wastewater, Operation Standards of Usage, Maintenance, and Repair of Sewage Facilities* and other internal rules and regulations on wastewater treatment according to the business type, in order to strengthen the sewage discharge management.

Kangzhe Hunan	Hebei Xili	Hunan Agriculture and Livestock
✓ In 2019, a new wastewater treatment project with a capacity of 200 tons/day was built to prevent the drop in treatment effect in case of sudden production increase.	✓ After treatment of the Company's sewage treatment station, the qualified wastewater flows into municipal wastewater treatment plant.	✓ Actively grows turfs and other plants around animal house and parks to purify residual animal dung water outdoor. At the same time, artificial wetlands are under construction.

The Group's wastewater discharge data in 2019 is shown below:

Table 14 Wastewater and Pollutant Components Data

	Unit	Year 2019
Wastewater	m^3	57,536.7
Wastewater intensity	m^3 /million RMB	8.34
Ammonia Nitrogen (NH_3-N)	Ton	0.1
Chemical Oxygen Demand (COD)	Ton	1.1

7.1.5 Noise Management

Regarding the noise generated by the machine operation during the drug production, the Group strictly manages the noise emission according to the *Emission Standard for Industrial Enterprises Noise at Boundaries,* monitoring regularly and requiring the likely susceptible employees to wear protective appliance. During the Reporting Period, the noise monitoring results met the requirements and did not have a significant negative impact on the staff's occupational health and the ecological environment.

7.2 Resource Management

The Group adheres to the implementation of energy conservation and the emission reduction in production and operation to build a sustainable low-carbon green enterprise actively. The Group reduces the consumption of natural resources, eradicates the resources-wasting behavior, and advocates the green environmental protection culture. The Group strictly abides by the *Law of the People's Republic of China on Conserving Energy, Law of the People's Republic of China on Promoting Clean Production,* and *Circular Economy Promotion Law of the People's Republic of China,* etc. and has established relevant internal management policies to ensure that the Company's operations always meet the national and local environmental protection requirements, reducing the impact on the environment and resources during operation.

7.2.1 Energy Conservation

The Group continuously improves energy management, strengthens energy conservation and efficient utilization, and promotes a series of relevant activities. Compared to 2018, the Group saved natural gas by 8% and diesel by 48% in 2019.

Electricity	Boiler fuel	Gasoline	Diesel oil
✓ Requiring employees to turn off lights when leaving, posting relevant signs; ✓ Using LED energy-saving lamps as much as possible in all lighting places; ✓ Setting the air-conditioners at 26℃ , regularly maintaining the air-conditioners to reduce energy consumption, installing shade curtains to reduce direct sunlight in summer for energy saving; ✓ Conducting daily inspections on lighting and air-conditioners to make sure reasonable switching on/off; ✓ Installing energy-saving lamps for streets and warehouses; ✓ Adopting frequency control for engine with long stand-by time.	Boiler fuel is used for drug production: ✓ Having regularized administration over the purchase, utilization and exhaust gas emission of boiler fuel; ✓ Purchasing quality fuels, implementing fuel inspection to ensure efficient fuel utilization; ✓ Strictly preventing the energy waste due to steam and liquid leakage or dripping, etc.; ✓ Maintaining boiler regularly to ensure reasonable and efficient use of gas boilers.	Gasoline consumption mainly comes from office: ✓ Establishing the *Regulations on Vehicle Management*, implementing vehicle registration and approval system for vehicle use, encouraging employees to travel together to reduce the frequency of vehicle use; ✓ Regularly inspecting and maintaining the vehicle; requiring drivers to do mileage registration.	Diesel fuel consumption comes from greenhouses' insulation equipment and vehicles for the agricultural business, and emergency power generator for drug production business: ✓ Using natural water from reservoirs for irrigation to reduce the frequency of diesel engines use; ✓ Operating the diesel generators as per practical demand, and conducting regular maintenance.

7.2.2 Water Conservation

The Group's water consumption includes: drug production and cleaning in drug plants, agricultural irrigation, livestock cultivation, and domestic use by employees. The Group strives to increase employees' awareness of water conservation and requires employees to turn off the taps after use to prevent any forms of waste such as "running and dripping", and the Group also strengthens water recycling in production.

Water for drug production and cleaning	Water for agricultural irrigation and livestock cultivation	Domestic water for employees
✓ Comprehensively maintaining the water supply system in the factory to prevent water leakage; ✓ Getting the domestic water and production wastewater to enter the self-built sewage treatment station for treatment and recycling.	✓ Upgrading the livestock and poultry breeding water equipment to automatic water-saving equipment; ✓ Replacing spray irrigation by drip irrigation in the greenhouse to reduce the waste of water; ✓ Using reservoirs and pipeline ditches to collect rainwater, and basically realizing natural water irrigation for greenhouses.	✓ Publicizing the act of water conservation and punishing the act of water waste; ✓ Debugging the automatic flushing system in the office to shorten the automatic flushing time.

7.2.3 Packaging Material and Paper Conservation

The Group has established the *Material Distribution Regulations.* The storage and logistics related departments have formulated packaging material procurement plans and purchased the materials on demand. The Group strictly controls the use of materials and introduces mechanized packaging to save the utilization volume of packaging materials. By means of delivering the products in the original packages, improving the packing mode of odds and ends, recycling the packaging boxes, etc., the Group aims to achieve reasonable utilization of packaging materials. In addition, the Group also raises environmental protection requirements to the packaging material manufacturers. For instance, Kangzhe Hunan required its cooperated packaging material manufacturers to provide environmental protection evaluation certificates and to submit material inspection certificates for packaging materials they produced.

The Group comprehensively implements paperless management, encourages video conferences, promotes the use of environment-friendly paper, demands double-sided printing and the diversified use of paper, and the secondary use of non-secret and nonconfidential paper, in order to reduce the consumption of office paper.

The Group's detailed energy and resources utilization data in 2019 is shown below:

Table 15 Energy and Resource Utilization Data

	Unit	**Year 2019**
Conversion of electricity for comprehensive energy consumption	kWh	30,443,173.8
- Outsourced electricity	kWh	7,010,258.4
- Natural gas	m^3	875,788.0
- Alcohol-based liquid fuel	Ton	2,095.3
- Gasoline	Liter	80,272.9
- Diesel oil	Liter	1,616.9
- Liquefied gas	Kg	480.0
Conversion of electricity for comprehensive energy consumption intensity	kWh /million RMB	4,413.85
Total water consumption	m^3	204,687.8
- Tap water	m^3	65,168.8
- Underground water	m^3	139,519.0
Total water consumption intensity	m^3 /million RMB	29.68
Total packaging material	Ton	659.3
- Paper products	Ton	356.0
- Glass bottle	Ton	175.0
- Plastics	Ton	128.2
Total packaging material intensity	Ton/million RMB	0.10
Office paper	Ton	8.0

7.3 Environment and Natural Resources

The Group focuses on developing employees' awareness of environmental protection, protects biodiversity during the production and operation, and works together to build for green, harmonious and sustainable development with various stakeholders. The Group's operating process does not involve the extraction and utilization of plenty of natural resources, and has a limited environmental impact.

Pharmaceutical promotion and network management business	Pharmaceutical production business	Agriculture and livestock business
✓ Effectively managing the waste generated in daily life and promoting green office program to reduce resource consumption.	✓ Standardizing procurement to prevent environmental damage such as over-harvesting and destruction of biodiversity, strengthening greening project and protecting water and soil resources, treating production sewage by the sewage in treatment plant, and using the treated water for irrigation, sanitary, etc.	✓ Applying double-layer of protection in the breeding area to strictly prevent the environmental pollution, collecting and using natural precipitation for irrigation to reduce the use of purchased water.

8. Community Dedication

The Group attaches great importance to social contribution of the medical and health field, and considers the effort in promoting medical advancement a driving force for its developmental momentum. And the Group pays attention to the community service and public service activities, and conducts a number of public service activities according to the demand.

8.1 Promoting Medical Advancement

During the Reporting Period, the Group participated in various re-education programs in the medical and health field. By informing primary physicians of advanced therapies and treatment methods, the Group has promoted medical advancement with good social recognition. During the Reporting Period, the Group also organized various activities to promote the medical advancement, including but not limited to:

- The 2019 "Health Walk" Hypertension Management Project: under the theme of "Caring for patient health, Antihypertensive treatment first", it was a philanthropic lecture tour for the comprehensive management of hypertension patients. The lectures were conducted to exchange the latest diagnosis and treatment method in the field of hypertension, aiming to improve the clinicians' standardized diagnosis and treatment level of hypertension.

- The 2019 "Training Class for the Management of Chronic Diseases in Tianjin Basic-level Medical Institutions": it aimed to further improve the level of essential medical and public health services of basic-level medical staffs, strengthening the management and control of chronic diseases, and solidly promoting basic public health services.

- 2019 National Basic-level Cardiovascular Disease Comprehensive Risk Management Project: it aimed to standardize the diagnosis and treatment process of cardiovascular diseases in the basic level of society and improve the medical service of basic-level doctors.

- 2019 Geriatrics Hypertension Lecture Tour: it aimed to improve the clinicians' level of diagnosis and treatment in common cardiovascular diseases such as hypertension and coronary heart diseases, especially for elderly patients.

8.2 Participation in Public Service Activities

While pursuing the long-term development of the enterprise, the Group has always regarded fulfillment of social responsibility as its internal driving force, and included philanthropy, especially support for education, into its long-term plan to give back to society. During the Reporting Period, the Group actively conducted the following public services activities, and encouraged and supported more employees to participate:

- The Group and the Shenzhen Social Welfare Center jointly organized the Children's Day and Media Open Day under the theme of "Growing Together and Flying with Childlike Hearts". The Group donated teaching materials, practice facilities, handicrafts materials, childcare clothes and other materials to the center and sponsored the stage construction and the activities with a total of 43 participants. And the Group was awarded a pennant and a crystal trophy by the welfare center.

- The Group participated in a community philanthropic event and donated a refrigerator for the "Urban Superman".

- Kangzhe Hunan, a subsidiary of the Group, sponsored two local welfare centers with agricultural products in a total value of about RMB36,000 and provided free agricultural technology guidance to the local farmer, as well as hired an annual average of about 5,000 local farmers, driving the re-employment of the local farmers in the neighborhood.

- Since 2003, Kangzhe Hunan, a subsidiary of the Group, has been donating within its ability to local students who need help or educational institutions every year. During the Reporting Period, it has sponsored local education bureaus and teachers with a total of RMB110,000. By the end of 2019, it had donated around a total of RMB0.9 million to the local education bureaus.

ESG Reporting Appendix

Appendix 1 CMS Environmental, Social and Governance Reporting Index

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

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

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
Social			
B1: Employment	General Disclosure		5.1 People-oriented Practice Talent Management
	B1.1	Total workforce by gender, employment type, age group	5.1 People-oriented Practice Talent Management
	B1.2	Employee turnover rate by gender, age group	5.1 People-oriented Practice Talent Management
B2: Health and Safety	General Disclosure		5.3 People-oriented Practice Care for Employees
	B2.1	Number and rate of work-related fatalities	5.3 People-oriented Practice Care for Employees
	B2.2	Lost days due to work injury	5.3 People-oriented Practice Care for Employees
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	5.3 People-oriented Practice Care for Employees
B3: Development and Training	General Disclosure		5.2 People-oriented Practice Training and Development
	B3.1	The percentage of employees trained by employee category	5.2 People-oriented Practice Training and Development
	B3.2	The average training hours completed per employee by employee category	5.2 People-oriented Practice Training and Development
B4: Labour Standards	General Disclosure		5.1 People-oriented Practice Talent Management
	B4.1	Description of measures to review employment practices to avoid child and forced labour	5.1 People-oriented Practice Talent Management
	B4.2	Description of steps taken to eliminate such practices when discovered	5.1 People-oriented Practice Talent Management
B5: Supply Chain Management	General Disclosure		6.1 Cooperation and Mutual Benefits Supplier Management
	B5.1	Number of suppliers by geographical region	6.1 Cooperation and Mutual Benefits Supplier Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	6.1 Cooperation and Mutual Benefits Supplier Management

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

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
Social			
B6: Product Responsibility	General Disclosure		4 Product Liability
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	4.1 Product Liability Quality and Safety of Products and Services
	B6.2	Number of products and service related complaints received and how they are dealt with	4.1 Product Liability Quality and Safety of Products and Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights	4.2 Product Liability Protection of Intellectual Properties
	B6.4	Description of quality assurance process and recall procedures	4.1 Product Liability Quality and Safety of Products and Services
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	4.1 Product Liability Quality and Safety of Products and Services
B7: Anti-corruption	General Disclosure		3.2 Compliance Operation Anti-corruption
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	3.2 Compliance Operation Anti-corruption
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	3.2 Compliance Operation Anti-corruption
B8: Community Investment	General Disclosure		8 Community Dedication
	B8.1	Focus areas of contribution	8 Community Dedication
	B8.2	Resources contributed to the focus area	8 Community Dedication

Appendix 2 CMS Environmental KPIs[1]

KPIs	Unit	Year 2017	Year 2018	Year 2019
Air pollutant[2]				
Sulfur Dioxide (SO_2)	Kg	1,981.2	237.1	35.5
Nitrogen Oxide (NO_x)	Kg	5,390.6	2,350.4	1,612.6
Particulate Matter (PM)	Kg	392.3	354.7	245.5
Wastewater and Pollutant				
Wastewater[3]	m^3	83,689.5	86,539.4	57,536.7
Wastewater intensity	m^3/million RMB	15.00	14.11	8.34
Ammonia Nitrogen (NH_3-N)	Ton	Non-disclosure	0.1	0.1
Chemical Oxygen Demand (COD)	Ton	Non-disclosure	0.9	1.1
GHG				
Total GHG emission (Scope 1+2)	Ton CO_2e	10,918.4	9,809.8	9,806.3
Total GHG emission intensity	Ton CO_2e/million RMB	1.96	1.60	1.42
Direct GHG emission (Scope 1)	Ton CO_2e	7,157.3	5,566.7	5,854.1
Indirect GHG emission (Scope 2)	Ton CO_2e	3,761.1	4,243.1	3,952.2
Solid Waste				
Hazardous waste	Ton	0.3	0.2	0.2
Hazardous waste intensity	Ton/million RMB	0.00005	0.00003	0.00003
Non-hazardous waste	Ton	123.3	1,782.0	1,676.8
Non-hazardous waste intensity	Ton/million RMB	0.02	0.29	0.24

[1] All the intensity data of environmental indicators in 2017-2019 were calculated as per sales revenue, shown as following: total emissions and usage amount divided by sales revenue (million RMB) after excluding the "two-invoice system" in the Reporting Period.

[2] During the Reporting Period, the Group's subsidiaries effectively controlled the utilization of natural gas and further enhanced the quality of alcohol-based liquid fuel, which led to the reduction of air pollutants.

[3] During the Reporting Period, the Group further strengthened wastewater management. Kangzhe Hunan installed wastewater flow meter to accurately record the amount of wastewater, which was discharged after treated by self-built sewage station. Besides, the wastewater data of the Reporting Period no longer included the estimated amount of clean water, such as steam or condensate water, which caused a significant reduction compared with the previous year.

Appendix 2 CMS Environmental KPIs -continued

KPIs	Unit	Year 2017	Year 2018	Year 2019
Energy				
Conversion of electricity for comprehensive energy consumption	kWh	Non-disclosure	29,758,236.2	30,443,173.8
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	Non-disclosure	4,850.96	4,413.85
Outsourced electricity	kWh	6,462,835.1	7,079,280.2	7,010,258.4
Natural gas	m^3	651,197.0	954,116.0	875,788.0
Alcohol-based liquid fuel	Ton	2,493.7	1,842.8	2,095.3
Gasoline	Liter	82,756.6	77,640.0	80,272.9
Diesel oil	Liter	3,896.0	3,111.6	1,616.9
Liquefied gas	Kg	Non-disclosure	480.0	480.0
Water Resource[4]				
Total water consumption	m^3	133,140.3	148,634.2	204,687.8
Total water consumption intensity	m^3/million RMB	23.87	24.23	29.68
Packaging Materials				
Total packaging material	Ton	451.8	544.1	659.3
Total packaging material intensity	Ton/million RMB	0.08	0.09	0.10

[4] During the Reporting Period, the Group's subsidiaries washed the factory roads, and Kangzhe Hunan consumed larger amount of water during the trial operation of sewage station expansion, which led to a significant increase in water consumption.

Appendix 3 CMS Social KPIs

KPIs	Unit	Year 2018	Year 2019
Employment			
Total employees	Person	Non-disclosure	4,052
Number of male employees	Person	Non-disclosure	1,903
Number of female employees	Person	Non-disclosure	2,149
Number of contracted employees	Person	Non-disclosure	4,052
Number of dispatched employees	Person	Non-disclosure	0
Number of employees aged under 30	Person	Non-disclosure	2,150
Number of employees aged 30-50	Person	Non-disclosure	1,782
Number of employees aged over 50	Person	Non-disclosure	120
Employee Turnover			
Turnover rate of employees	%	Non-disclosure	18.6
Turnover rate of male employees	%	Non-disclosure	19.9
Turnover rate of female employees	%	Non-disclosure	17.3
Turnover rate of employees aged under 30	%	Non-disclosure	20.1
Turnover rate of employees aged 30-50	%	Non-disclosure	17.4
Turnover rate of employees aged over 50	%	Non-disclosure	5.5
Occupational Health and Safety			
Number of work-related fatalities	Person	0	0
Proportion of work-related fatalities	%	0	0
Working days lost due to work-related injury[5]	Day	Non-disclosure	338
Proportion of employees with occupational health checks	%	100	100

[5] During the Reporting period, the Group's work-related injuries were caused by traffic accident on the way to work, machine collision or accidental fall.

Appendix 3 CMS Social KPIs-continued

KPIs	Unit	Year 2018	Year 2019
Training and Development			
Total employees training expenditure	Million RMB	Non-disclosure	2.9
Coverage of employees training	%	100	83.0
Training coverage of general employees	%	Non-disclosure	83.4
Training coverage of senior management	%	Non-disclosure	35.3
Employees training duration per capita	Hours	Non-disclosure	34.1
Training duration per capita for general employees	Hours	Non-disclosure	34.4
Training duration per capita for senior management	Hours	Non-disclosure	3.2
Supplier Management			
Total number of suppliers	Number	87	101
Mainland suppliers	Number	75	81
HK SAR, Macao SAR, TWN and overseas suppliers	Number	12	20
Quality and Safety of Products and Services			
Response and handling rate for product and service quality related complaints	%	100	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0	0
Number of product and service quality related complaints	Number	Non-disclosure	150
Anti-corruption			
Corruption lawsuits	Number	0	0
Participation in Public Service Activities			
Total donation amount for public service activities	Million RMB	0.2	0.2

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 100 to 204, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
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Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified the impairment of goodwill allocated to a cash generating unit of Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd. ("Tianjin Kangzhe") as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of goodwill. The impairment of goodwill allocated to a cash generating unit of Tianjin Kangzhe is determined based on the higher of fair value less costs to sell and value in use of the cash generating units, which is based on the cash flow forecasts prepared by management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on management's view of future business prospects. As at 31 December 2019, the carrying value of goodwill allocated to a cash generating unit of Tianjin Kangzhe was RMB1,160 million. Details relating to the Group's goodwill and key sources of estimation uncertainty are set out in Note 19 and Note 4 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill included: • Making inquiries with management on their bases and assumptions used in relation to the preparation of the value in use calculation; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the reasonableness of the key assumptions including growth rates, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentation; • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to assess the extent of impact on the value in use calculation; • Evaluating the independent professional external valuer's competence, capabilities and objectivity; and • Involving our internal valuation specialists to assess the appropriateness of valuation methodology and discount rate adopted.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
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Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Interest in an Associate	
We identified the impairment of interest in Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical"), an associate of the Group as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of interest in Tibet Pharmaceutical and its significance to the consolidated financial statements. The impairment of interest in Tibet Pharmaceutical is determined based on the higher of fair value less costs of disposal and value in use, which is based on the estimate of the present value of the estimated cash flows expected to arise from the proceeds from the ultimate disposal of the investment prepared by the management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rate and forecast performance, based on the management's view of future business prospects. As at 31 December 2019, the carrying value of the Group's interest in Tibet Pharmaceutical was RMB2,590 million. Details relating to the Group's interest in Tibet Pharmaceutical and key sources of estimation uncertainty are set out in Note 17 and Note 4 to the consolidated financial statements.	Our procedures in relation to the impairment of interest in an associate included: • Obtaining an understanding of the management's bases and assumptions used in relation to the preparation of the value in use calculation reviewed by an independent professional external valuer; • Checking the mathematical accuracy of the value in use calculation; • Assessing the reasonableness of key inputs and assumptions used by management in estimations of value in use, including growth rates, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentations; • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to assess the extent of impact on the value in use calculation; • Evaluating the independent professional external valuer's competence, capabilities and objectivity; and • Involving our internal valuation specialists to assess the appropriateness of valuation methodology and discount rate adopted.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
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Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

TO THE SHAREHOLDERS OFCHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	6,073,624	5,433,449
Cost of goods sold		(1,527,308)	(1,516,575)
Gross profit		4,546,316	3,916,874
Other gains and losses	6	73,801	(5,611)
Selling expenses		(1,939,167)	(1,672,595)
Administrative expenses		(251,290)	(243,265)
Finance costs	7	(56,255)	(71,885)
Share of results of associates		114,293	82,856
Profit before tax		2,487,698	2,006,374
Income tax expense	10	(532,004)	(161,776)
Profit for the year	11	1,955,694	1,844,598
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(14,523)	(14,065)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		8,865	23,168
Exchange differences arising from translation of foreign operations		(629)	211
Change in fair value on cash flow hedges			
- fair value (loss) gain		(16,286)	4,121
- deferred tax relating to change in fair value		2,687	(680)
Other comprehensive (expense) income for the year, net of income tax		(19,886)	12,755
Total comprehensive income for the year		1,935,808	1,857,353
Profit (loss) for the year attributable to:			
Owners of the Company		1,960,712	1,849,883
Non-controlling interests		(5,018)	(5,285)
		1,955,694	1,844,598
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,940,826	1,862,638
Non-controlling interests		(5,018)	(5,285)
		1,935,808	1,857,353
		RMB	RMB
Earnings per share	13		
Basic		0.7905	0.7441

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	14	472,901	478,268
Right-of-use assets	15	64,986	-
Prepaid lease payments	16	-	61,667
Interests in associates	17	2,590,159	2,491,478
Intangible assets	18	2,459,128	2,554,075
Goodwill	19	1,384,535	1,384,535
Equity instruments at fair value through other comprehensive income	20(b)	269,704	241,232
Deposits paid for acquisition of intangible assets	23	325,126	95,262
Amount due from an associate	24	31,816	31,816
Derivative financial instruments	32	-	32,866
Deferred tax assets	31	20,298	20,712
		7,618,653	7,391,911
Current assets			
Inventories	21	407,058	434,661
Financial asset at fair value through profit or loss	20(a)	2,736	-
Trade and other receivables and prepayments	22	1,585,724	1,718,754
Tax recoverable		10,801	8,296
Derivative financial instruments	32	28,192	-
Amount due from an associate	24	152,804	137,749
Bank balances and cash	25	1,365,008	815,081
		3,552,323	3,114,541
Current liabilities			
Trade and other payables	26	372,796	382,215
Lease liabilities	27	9,388	-
Contract liabilities	28	12,939	5,469
Bank borrowings	29	693,909	25,000
Derivative financial instruments	32	142	-
Deferred consideration payables	30	10,744	8,847
Tax payable		447,784	129,314
		1,547,702	550,845
Net current assets		2,004,621	2,563,696
Total assets less current liabilities		9,623,274	9,955,607
Capital and reserves			
Share capital	33	84,963	84,963
Reserves	34	9,387,898	8,270,823
Equity attributable to owners of the Company		9,472,861	8,355,786
Non-controlling interests		43,271	48,289
		9,516,132	8,404,075

	NOTES	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	31	91,552	101,411
Lease liabilities	27	10,491	-
Deferred consideration payables	30	5,099	9,926
Bank borrowings	29	-	1,440,195
		107,142	1,551,532
		9,623,274	9,955,607

The consolidated financial statements on pages 100 to 204 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN Yanling
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company											
	Share capital	Share premium	Capital reserve	Surplus reserve fund	Translation reserve	Hedging reserve	Investments revaluation reserve	Accumulated profits	Dividend reserve	Sub-total	Attributable to non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note 34)	RMB'000 (Note 34)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	85,200	2,444,296	19,545	233,270	(14,047)	10,039	(3,271)	4,153,177	346,474	7,274,683	53,574	7,328,257
Profit (loss) for the year	-	-	-	-	-	-	-	1,849,883	-	1,849,883	(5,285)	1,844,598
Share of other comprehensive income of associates	-	-	-	-	23,168	-	-	-	-	23,168	-	23,168
Exchange differences arising from translation of foreign operations	-	-	-	-	211	-	-	-	-	211	-	211
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(14,065)	-	-	(14,065)	-	(14,065)
Change in fair value on cash flow hedges												
- fair value gain	-	-	-	-	-	4,121	-	-	-	4,121	-	4,121
- deferred tax relating to change in fair value	-	-	-	-	-	(680)	-	-	-	(680)	-	(680)
Total comprehensive income (expense) for the year	-	-	-	-	23,379	3,441	(14,065)	1,849,883	-	1,862,638	(5,285)	1,857,353
Repurchase of ordinary shares	(237)	(52,783)	-	-	-	-	-	-	-	(53,020)	-	(53,020)
Dividends paid (Note 12)	-	-	-	-	-	-	-	(382,041)	(346,474)	(728,515)	-	(728,515)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(355,691)	355,691	-	-	-
Transfer of reserves	-	-	-	97,701	-	-	-	(97,701)	-	-	-	-
Balance at 31 December 2018	84,963	2,391,513	19,545	330,971	9,332	13,480	(17,336)	5,167,627	355,691	8,355,786	48,289	8,404,075
Profit (loss) for the year	-	-	-	-	-	-	-	1,960,712		1,960,712	(5,018)	1,955,694
Share of other comprehensive income of associates	-	-	-	-	8,865	-	-	-	-	8,865	-	8,865
Exchange differences arising from translation of foreign operations	-	-	-	-	(629)	-	-	-	-	(629)	-	(629)
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(14,523)	-	-	(14,523)	-	(14,523)
Change in fair value on cash flow hedges												
- fair value loss	-	-	-	-	-	(16,286)	-	-	-	(16,286)	-	(16,286)
- deferred tax relating to change in fair value	-	-	-	-	-	2,687	-	-	-	2,687	-	2,687
Total comprehensive income (expense) for the year	-	-	-	-	8,236	(13,599)	(14,523)	1,960,712	-	1,940,826	(5,018)	1,935,808
Dividends paid (Note 12)	-	-	-	-	-	-	-	(467,061)	(355,691)	(822,752)	-	(822,752)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(315,260)	315,260	-	-	-
Transfer of reserves	-	-	-	25,481	-	-	-	(25,481)	-	-	-	-
Release of surplus reserve fund on deregistration of a subsidiary	-	-	-	(999)	-	-	-	-	-	(999)	-	(999)
Balance at 31 December 2019	84,963	2,391,513	19,545	355,453	17,568	(119)	(31,859)	6,320,537	315,260	9,472,861	43,271	9,516,132

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before tax		2,487,698	2,006,374
Adjustments for:			
Amortisation of intangible assets	18	162,317	166,251
Impairment loss on intangible assets		4,730	-
Impairment loss on deposit paid for acquisition of intangible assets		963	-
Interest expenses		55,176	70,029
Depreciation of property, plant and equipment	14	32,181	32,743
Depreciation of right-of-use assets	15	9,557	-
Written off for inventories		2,948	34,471
Loss on disposal of property, plant and equipment		9,122	1,697
Gain on disposal of right-of-use assets		(6,268)	-
Release of prepaid lease payments		-	1,745
Release on deferred difference on initial recognition of financial instruments		(1,929)	-
Imputed interest expense on deferred consideration payables		1,079	1,856
Share of results of associates		(114,293)	(82,856)
Interest income		(41,998)	(26,076)
Net foreign exchange loss		30,276	53,113
Change in fair value of derivative financial instruments		(8,904)	(16,722)
Operating cash flows before movements in working capital		2,622,655	2,242,625
Decrease (increase) in inventories		24,655	(51,263)
Decrease (increase) in trade and other receivables and prepayments		148,569	(230,909)
Increase in amount due from an associate		(15,055)	(18,542)
Decrease in trade and other payables		(9,419)	(75,622)
Increase (decrease) in contract liabilities		7,470	(988)
Cash generated from operations		2,778,875	1,865,301
People's Republic of China ("PRC") Enterprise Income Tax paid		(222,511)	(107,688)
Hong Kong Profits Tax and other tax paid		(1,245)	(3,048)
Net cash from operating activities		2,555,119	1,754,565

	NOTES	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Interest received		41,998	26,076
Dividends received from an associate		24,477	26,933
Purchase of property, plant and equipment		(37,546)	(33,855)
Payment for right-of-use assets/leasehold lands		-	(4,997)
Proceeds from disposal of property, plant and equipment		1,610	227
Proceeds from disposal of right-of-use asset		22,929	-
Purchase of financial assets at fair value through profit or loss		(2,736)	-
Purchase of equity instruments at fair value through other other comprehensive income		(39,774)	(230,953)
Payments for rental deposits		(1,339)	-
Deposits for acquisition of intangible assets		(302,927)	(23,120)
Net cash outflow on disposal of a subsidiary	44	(16,078)	-
NET CASH USED IN INVESTING ACTIVITIES		(309,386)	(239,689)
FINANCING ACTIVITIES			
New bank borrowings raised		-	25,000
Repayment of deferred consideration payables		(7,834)	(9,807)
Interest paid		(55,176)	(70,029)
Dividends paid	12	(822,752)	(728,515)
Repayment of bank borrowings		(801,595)	(717,940)
Repayments of lease liabilities		(7,780)	-
Payment on repurchase of shares		-	(53,020)
NET CASH USED IN FINANCING ACTIVITIES		(1,695,137)	(1,554,311)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		550,596	(39,435)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		815,081	855,629
Effects of exchange rate changes on the balance of cash held in foreign currencies		(669)	(1,113)
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH		1,365,008	815,081

1. GENERAL

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

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

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

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

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

The Company and its subsidiaries (collectively referred to as the "Group") has applied the following new and amendments to IFRSs issued by the International Accountin g Standards Board ("IASB") for the first time in the current year:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle

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

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

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

2.1 *IFRS 16 Leases*

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

Definition of lease

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

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

As a lessee

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

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

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

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

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

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

2.1 *IFRS 16 Leases* - continued

As a lessee - continued

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.75%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	10,441
Lease liabilities discounted at relevant incremental borrowing rates	9,891
Practical expedient - leases with lease term ending within 12 months from the date of initial application	(392)
Lease liabilities relating to operating leases recognised upon application of IFRS 16	9,499
Analysed as	
Current	2,535
Non-current	6,964
	9,499

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

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		9,499
Reclassified from prepaid lease payments	(a)	63,545
		73,044

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB1,878,000 and RMB61,667,000 were reclassified to right-of-use assets.

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

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

2.1 *IFRS 16 Leases* - continued

As a lessee - continued

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

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current assets			
Prepaid lease payments (Note 16)	61,667	(61,667)	-
Right-of-use assets	-	73,044	73,044
Current asset			
Prepaid lease payments (included in trade and other receivables) (Note 16)	1,878	(1,878)	-
Current liability			
Lease liabilities	-	(2,535)	(2,535)
Non-current liability			
Lease liabilities	-	(6,964)	(6,964)

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

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

New and Amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2020
[5] Effective for annual periods beginning on or after 1 January 2022

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

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

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

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

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

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

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

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

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

The New Framework:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations

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

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

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

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

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

- Lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

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

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

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

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

Interests in associates

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Interests in associates - continued

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

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

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

Ownership interests in Leasehold land and building

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets -research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Impairment on property, plant and equipment, right-of-use assets, deposits paid for acquisition of intangible assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on property, plant and equipment, right-of-use assets, deposits for acquisition of intangibles assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) - continued

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

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

Inventories

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

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

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

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it as a separate line item on the consolidated statement of financial position).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in time value of options that market participants would take into account when pricing the asset or liability.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

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

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

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

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

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

(i) Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss and is included in the "other gains and losses" line item.

Impairment of financial assets

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

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

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with the significant balances and collectively using a provision matrix with appropriate groupings.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(v) Measurement and recognition of ECL

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

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

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Amount due from an associate is assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments

Classification as debts or equity

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

Equity instruments

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

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

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, or (ii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as derivative financial instruments, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated profits upon derecognition of the financial liability.

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments- continued

Bank borrowings

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

Deferred consideration payables

The deferred consideration payables are initially measured at the present value of the contractual future payments that are not paid at that date. Deferred consideration payables are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Hedge accounting - continued

Assessment of hedging relationship and effectiveness

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

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

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

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss under other gains and losses.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, the amount is immediately reclassified to profit or loss.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Hedge accounting - continued

Discontinuation of hedge accounting - continued

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition of financial liabilities

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

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

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

Non-substantial modifications of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers

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

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

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

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

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

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

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

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

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers - continued

Principal versus agent - continued

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The Group has acted as principal for transactions of pharmaceutical products and acted as agent for the promotion services. In assessing whether the Group acted as principal or agent, the Group has considered whether it controls the pharmaceutical products and promotion services before such products and/or services are transferred to customers, indicators including but not limited to whether the Group has primary responsibility in providing the goods and services to the customers, inventory risk before the customers' order and whether it has discretion in establishing price.

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

Foreign currencies

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

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

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

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

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transition in note 2)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

Refundable rental deposits

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Group as a lessee (upon application of IFRS 16 in accordance with transition in note 2) - continued

Lease liabilities

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

The lease payments include:

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

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

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

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

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

The Group as lessee (prior to 1 January 2019)

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Group as lessee (prior to 1 January 2019) - continued

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

Borrowing costs

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

Retirement benefit costs

Payment to defined contribution retirement benefit plans including schemes registered under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, Social Security Fund Schemes in Macau, Employee Provident Fund Schemes in Malaysia and government retirement benefit scheme in PRC and retirement benefit scheme and retirement benefit scheme in Dubai are recognised as an expense when employees have rendered service, entitling them to the contributions.

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

The Group operates defined contribution retirement schemes in Hong Kong, Macau, the PRC, Malaysia and Dubai.

The Group's contributions to the defined contribution retirement schemes and the mandatory provident fund scheme are recognised as an expense when employees have rendered service entitling them to the contributions and, in respect of the non-mandatory provident fund schemes, such contributions are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the Group's contributions.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Short-term employee benefits

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to the five (2018: five) cash generating units ("CGU"s) (see note 19). The impairment assessment is based on the higher of fair value less costs of disposal and value in use of the CGUs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. In the opinion of the directors of the Company, no impairment of goodwill is required for the years ended 31 December 2019 and 2018. As at 31 December 2019, the carrying amount of goodwill is approximately RMB1,384,535,000 (2018: RMB1,384,535,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

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

As at 31 December 2019, in view of impairment indicators, the Group performed an impairment assessment on Tibet Pharmaceutical, an associate of the Group. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from the proceeds from the ultimate disposal of the investment taking into account factors, including growth rates, discount rate and forecast performance. In cases where the actual cash flows are more or less than expected, or change in facts and circumstances which result in revision of future cash flows estimation, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place. In the opinion of the directors of the Company, no impairment of interest in Tibet Pharmaceutical is recognised for the years ended 31 December 2019 and 2018. Details of the interest in Tibet Pharmaceutical are disclosed in note 17.

As at 31 December 2019, the carrying amount of the interests in Tibet Pharmaceutical amounted to RMB2,590,151,000 (2018: RMB2,491,470,000).

Deferred tax assets

As at 31 December 2019, a deferred tax asset of approximately RMB19,074,000 (2018: RMB19,511,000) in relation to unrealised profits on inventories has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or there is a change in facts and circumstances which results in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss in the period in which such a reversal or further recognition takes places.

Estimated impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss of RMB4,730,000 (2018: nil) was recognised in profit or loss for the year ended 31 December 2019. As at 31 December 2019, the carrying amount of intangible assets is approximately RMB2,459,128,000 (2018: RMB2,554,075,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 36 and 22, respectively.

Fair value measurement of financial instruments

The Group's unquoted equity instruments including equity instruments at FVTOCI, amounting to RMB235,568,000 (2018: RMB230,953,000), and financial assets at FVTPL, amounting to RMB2,736,000 (2018: nil), as at 31 December 2019 are measured at fair values with certain fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 20 for further disclosures.

Estimated impairment of deposits paid for acquisition of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its deposits paid for acquisition of intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. If the recoverable amount of the deposits paid for acquisition of intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. During the year ended 31 December 2019, an impairment loss of RMB963,000 (2018: nil) was recognised. As at 31 December 2019, the carrying amount of the deposits paid for acquisition of intangible assets is approximately RMB325,126,000 (2018: RMB95,262,000).

5. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

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

At a point in time	2019 RMB'000	2018 RMB'000
Sales of pharmaceutical products	4,768,335	4,308,647
Promotion income	1,305,289	1,124,802
Total revenue	6,073,624	5,433,449

(ii) Performance obligations for contracts with customers

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

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

A contract liability represents the Group's obligation to sales of pharmaceutical products to customers for which the Group has received consideration from (or an amount of consideration is due from) customers while revenue has not yet been recognised. The transaction prices allocated to the remaining unsatisfied performance obligations as at 31 December 2019 are RMB12,939,000 (2018: RMB5,469,000) and the expected timing of recognising revenue is within one year.

5. REVENUE AND SEGMENT INFORMATION - continued

(iii) Segment information

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

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

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

The Group primarily operates in the PRC. Almost all revenue from external customers is attributed to the PRC, 74% and 26% of non-current assets excluding derivative financial instruments and deferred tax assets of the Group are located in the PRC and Dubai, respectively (2018: 99% and nil).

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

6. OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Impairment loss on intangible assets	(4,730)	-
Impairment loss on deposit paid for acquisition of intangible assets	(963)	-
Interest income	41,998	26,076
Government subsidies (Note a)	47,377	11,299
Loss on disposal of property, plant and equipment	(9,122)	(1,697)
Gain on disposal of right-of-use assets	6,268	-
Net foreign exchange loss	(18,851)	(59,487)
Change in fair value of derivative financial instruments	8,904	16,722
Release on deferred difference on initial recognition of financial instruments	1,929	-
Others	991	1,476
	73,801	(5,611)

Note:

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

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	53,862	70,029
Interest on lease liabilities	1,314	-
Imputed interest on deferred consideration payables	1,079	1,856
	56,255	71,885

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remunerations for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, are as follows:

	Year ended 31 December 2019						
	Executive Directors (Note b)		Independent Non-executive Directors (Note c)			Executive Director and chief executive (Note b)	
	Chen Hong Bing RMB'000	Chen Yan Ling RMB'000	Wu Chi Keung RMB'000	Cheung Kam Shing, Terry RMB'000	Leung Chong Shun RMB'000	Lam Kong RMB'000 (Note a)	Total RMB'000
Fees	191	191	191	191	191	191	1,146
Other emoluments							
Salaries and other benefits	3,012	2,316	-	-	-	3,324	8,652
Contributions to retirement benefits schemes	76	76	-	-	-	33	185
Total emoluments	3,279	2,583	191	191	191	3,548	9,983

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

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

Notes:

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

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

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

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

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2019 included 3 directors (2018: 3 directors), details of whose emoluments are set out in note 8 above. The emoluments of the remaining two (2018: two) individuals for the year ended 31 December 2019 were as follows:

	2019 RMB'000	2018 RMB'000
Employees		
- basic salaries and allowances	2,952	3,024
- retirement benefits scheme contributions	116	109
	3,068	3,133

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

	Number of employees	
	2019	2018
HK$1,500,001 to HK$2,000,000 (approximately RMB1,328,000 to RMB1,770,000)	2	2

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

10. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax:		
The PRC Enterprise Income Tax	161,737	153,939
Malaysian Corporate Income Tax	357,219	33
Hong Kong Profits Tax	7,009	5,002
Others	4,822	-
	530,787	158,974
Underprovision in prior years:		
The PRC Enterprise Income Tax	7,975	399
Deferred taxation (note 31):		
- Current year	(6,758)	2,403
	532,004	161,776

Note:

(a) The PRC Enterprise Income Tax

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

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

天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2018: 15%) granted by the local tax authority until 2020. 康哲 (湖南) 制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% (2018: 15%) granted by local tax authority until 2019. 西藏康哲醫藥科技有限公司 (Tibet Kangzhe Pharmaceutical Technology Co., Ltd.) ("Tibet Kangzhe Technology") and 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") are entitled to a reduced tax rate of 9% (2018: 9%) granted by local tax authority until 31 December 2021.

(b) Malaysian Corporate Income Tax and Withholding Income Tax

Due to the tax reform that under Labuan New Tax Legislation, the Group's Malaysian subsidiary would be taxed under the Malaysian Income Tax Act 1967 (the "Act 1967") with effect from the year of assessment 2019. The statutory income tax of the Group's Malaysian subsidiary is at 24% of the chargeable income and withholding income tax of 15% and 10% shall be levied on the interest payment and royalty payment, respectively, from the companies established in Malaysia to overseas entities for the year ended 31 December 2019 (2018: the Group's Malaysian subsidiary has paid tax at a flat rate of RM20,000 (equivalent to RMB33,000) under the Labuan Business Activity Tax Act 1990).

10. INCOME TAX EXPENSE - continued

Note: - continued

(c) Hong Kong Profits Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%, while only one entity nominated by a group of "connected" entities will be entitled to select the lower tax rate. The profits of group entities not elected/qualified for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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

(d) PRC Withholding Income Tax

PRC withholding income tax of 10% shall be levied on the dividend declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. A lower 5% withholding rate may be applied when the immediate holding company of the PRC subsidiaries are incorporated or operated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong.

(e) Overseas Income tax

The company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 of Cayman Islands and accordingly, is exempted from the Cayman Islands Income Tax. According to prevailing regulations in Dubai, no income tax is imposed on the Company's subsidiaries in Dubai.

(f) Macau Complementary Income Tax

Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits. The maximum tax rate is 12% for the years ended 31 December 2019 and 2018.

10. INCOME TAX EXPENSE - continued

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

	2019 RMB'000	2018 RMB'000
Profit before tax	2,487,698	2,006,374
Tax at the applicable tax rate (Note)	621,925	501,594
Tax effect of share of results of associates	(28,574)	(20,714)
Tax effect of expenses that are not deductible in determining taxable profit	45,982	39,595
Tax effect of income that is not taxable in determining taxable profit	(2,353)	(247)
Tax effect of offshore income that is not taxable in determining taxable profit	(68,623)	-
Tax effect of tax losses not recognised	106	4,685
Tax effect of deductible temporary differences not recognised	1,954	10,307
Tax effect of tax concession	(81,004)	(74,982)
Effect on different applicable tax rates of subsidiaries	(13,119)	(2,462)
Effect of tax benefit arising from Labuan Tax Act	-	(299,051)
Effect of taxable profit that is not taxable in Dubai	(22,106)	-
Underprovision in prior years	7,975	399
Utilisation of tax losses previously not recognised	(73)	-
Withholding tax levied on Malaysian subsidiaries	41,665	-
Additional tax obligation arising from Malaysian Income Tax Act	28,687	-
Others	(438)	2,652
Income tax expense for the year	532,004	161,776

Note: The applicable PRC EIT rate of 25% (2018: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

11. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,146	1,062
Salaries and other benefits	8,652	7,492
Contribution to retirement benefits schemes	185	131
	9,983	8,685
Other staff costs	604,816	508,973
Contribution to retirement benefits schemes	43,608	42,921
Employee benefits expense (note 42)	14,000	9,000
Total staff costs	672,407	569,579
Auditor's remuneration	3,186	2,673
Impairment loss on intangible assets	4,730	-
Impairment loss on deposits paid for acquisition of intangible assets	963	-
Written off for inventories (included in cost of goods sold)	2,948	34,471
Release of prepaid lease payments	-	1,745
Depreciation of property, plant and equipment	32,181	32,743
Depreciation of right-of-use assets	9,557	-
Amortisation of intangible assets (included in cost of goods sold)	162,317	166,251
Cost of inventories recognised as an expense	1,349,705	1,310,321

12. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2019 Interim - RMB 0.1883(2018: 2018 interim dividend RMB0.1536) per share	467,061	382,041
2018 Final - RMB0.1434 (2018: 2017 final dividend RMB0.1393) per share	355,691	346,474
	822,752	728,515
Dividends proposed		
Dividends proposed during the year:		
2019 final - RMB0.1271 (2018: 2018 final dividend of RMB0.1434) per share	315,260	355,691

The Board of Directors have declared a final dividend of RMB0.1271 per ordinary share for the year ended 31 December 2019 (2018: RMB0.1434 per ordinary share).

13. EARNINGS PER SHARE

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

	2019 RMB'000	2018 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,960,712	1,849,883

	Number of ordinary shares as at 31 December	
	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,480,408,512	2,486,146,033

The Group has no outstanding potential ordinary shares as at 31 December 2019 and 2018 and during the years ended 31 December 2019 and 2018. Therefore, no diluted earnings per share is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Leasehold improvement**	**Plant and machinery**	**Motor vehicles**	**Furniture, fixtures and equipment**	**Construction in progress**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2018	298,097	27,329	183,408	27,398	20,327	30,640	587,199
Additions	231	19,360	2,108	8,756	2,432	968	33,855
Disposals	(2,876)	-	(9,218)	(1,329)	(1,237)	-	(14,660)
Transfer	20,208	-	49	-	30	(20,287)	-
At 31 December 2018	315,660	46,689	176,347	34,825	21,552	11,321	606,394
Additions	13,487	1,248	1,750	2,028	7,056	11,977	37,546
Disposals	(23,697)	-	(17)	(3,074)	(1,824)	-	(28,612)
Transfer	122	-	770	-	-	(892)	-
At 31 December 2019	305,572	47,937	178,850	33,779	26,784	22,406	615,328
ACCUMULATED DEPRECIATION							
At 1 January 2018	40,070	2,000	35,872	20,137	10,040	-	108,119
Provided for the year	11,893	3,585	12,955	2,672	1,638	-	32,743
Eliminated on disposals	(1,621)	-	(8,738)	(1,200)	(1,177)	-	(12,736)
At 31 December 2018	50,342	5,585	40,089	21,609	10,501	-	128,126
Provided for the year	11,655	3,901	11,635	3,543	1,447	-	32,181
Eliminated on disposals	(13,419)	-	(16)	(2,767)	(1,678)	-	(17,880)
At 31 December 2019	48,578	9,486	51,708	22,385	10,270	-	142,427
CARRYING VALUES							
At 31 December 2019	256,994	38,451	127,142	11,394	16,514	22,406	472,901
At 31 December 2018	265,318	41,104	136,258	13,216	11,051	11,321	478,268

14. PROPERTY, PLANT AND EQUIPMENT - continued

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

Buildings	Over the shorter of the lease terms, or 20/40 years
Leasehold improvement	Over the shorter of the lease terms, or 10 years
Plant and machinery	5 to 10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years

The Group has pledged property, plant and equipment with a net book value of approximately RMB69,838,000 (2018: RMB73,247,000) to secure certain bank borrowings and banking facilities granted to the Group.

15. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Building RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	63,545	9,499	73,044
As at 31 December 2019			
Carrying amount	45,593	19,393	64,986
For the year ended 31 December 2019			
Depreciation charge	1,291	8,266	9,557
Expense relating to short-term leases with lease terms end within 12 months of the date of initial application of IFRS 16			392
Total cash outflow for leases			(9,486)
Disposal of right-of-use assets			(16,661)
Additions to right-of-use assets			18,160

For both years, the Group leases offices premises and warehouses for its operations. For the year ended 31 December 2019, lease contracts are entered into for fixed term of 1 year to 5 years (2018: 1 year to 5 years) with fixed payment. The Group does not have the option to purchase the leased properties for a nominal amount at the end of the relevant lease terms or any extension/termination options which are solely at the Group's discretion. The Group's obligations are secured by the rental deposits for such leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group determines the lease period to be the non-cancellable period based on the contractual terms of the contract.

15. RIGHT-OF-USE ASSETS - continued

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

As at 31 December 2019, the Group has pledged right-of-use assets with a net book value of approximately RMB15,904,000 to secure general banking facilities granted to the Group.

The Group regularly entered into short-term leases for offices premises and warehouses. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 15.

All the Group's leasehold lands represented prepaid land use right, are located in the PRC.

16. PREPAID LEASE PAYMENTS

	2018 RMB'000
Analysed for reporting purposes as:	
Current asset (included in trade and other receivables)	1,878
Non-current assets	61,667
	63,545

As at 31 December 2018, the Group has pledged leasehold land with a net book value of approximately RMB28,289,000 to secure general banking facilities granted to the Group.

All the Group's prepaid lease payments represented prepaid land use right, are located in the PRC.

The entire prepaid lease payments have been transferred to the right-of-use assets upon application of IFRS 16 (note 2.1)

17. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Unlisted	11,536	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	274,267	175,586
	2,590,159	2,491,478
Fair value of listed investment (Note)	2,116,334	1,952,267

17. INTERESTS IN ASSOCIATES - continued

Note: As at 31 December 2019, the fair value of the Group's interest in its listed associate, Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was approximately RMB2,116 million (2018: approximately RMB1,952 million) based on the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13 Fair Value Measurement.

As at 31 December 2019 and 2018, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest /voting rights held by the Group		Principal activities
			2019	2018	
Ophol Limited ("Ophol")	Hong Kong	Hong Kong	24.49%	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical (note)	Tibet	Tibet	37.36%	36.83%	Production of medicines and sale of drugs

Note: During the year ended 31 December 2019, Tibet Pharmaceutical repurchased an aggregate of 2,520,746 ordinary shares. After the repurchase, the proportion of ownership interest held by the Group increased from 36.83% to 37.36%. As at 31 December 2019, the Group holds an aggregate of 66,156,114 (2018: 66,156,114) ordinary shares of Tibet Pharmaceutical. As the Group is able to exercise significant influence over Tibet Pharmaceutical in both years, it is accounted for as an associate of the Group. Included in the cost of investment in Tibet Pharmaceutical as at 31 December 2019, there is a goodwill of approximately RMB1,654,481,000 (2018: RMB1,654,481,000).

At 31 December 2019, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 14.4% (2018: 12.4%). Tibet Pharmaceutical's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2018: 3%). This growth rate is based on management's best estimate and past experience on the industry.

In the opinion of the directors of the Company, as the recoverable amount based on the value in use calculation is higher than the carrying amount at the end of both reporting periods, no impairment loss was recognised for the years ended 31 December 2019 and 2018. Details of the assumptions used in the impairment assessment of interest in Tibet Pharmaceutical are disclosed in note 4.

Summarised financial information of associates

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

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

17. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Tibet Pharmaceutical

	31.12.2019 RMB'000	31.12.2018 RMB'000
Current assets	1,341,035	1,087,632
Non-current assets	1,426,197	1,444,420
Current liabilities	(309,846)	(261,268)
Non-current liabilities	(10,595)	(13,627)

	2019 RMB'000	2018 RMB'000
Revenue	1,256,022	1,027,879
Profit for the year	317,370	218,088
Other comprehensive income for the year	23,728	62,821
Total comprehensive income for the year	341,098	280,909
Dividends received from the associate during the year	24,477	25,470

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

	31.12.2019 RMB'000	31.12.2018 RMB'000
Net assets of Tibet Pharmaceutical	2,446,791	2,257,157
Non-controlling interests	(9,730)	(4,681)
	2,437,061	2,252,476
Proportion of the Group's ownership interest in Tibet Pharmaceutical	37.36%	36.83%
	910,486	829,587
Goodwill	1,654,481	1,654,481
Effect of fair value adjustment at acquisition	32,861	32,861
Effect of deferred tax relating to fair value adjustment at acquisition	(8,215)	(8,215)
Other adjustments	538	(17,244)
Carrying amount of the Group's interest in Tibet Pharmaceutical	2,590,151	2,491,470

17. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Ophol

	31.12.2019 RMB'000	31.12.2018 RMB'000
Current assets	45	45
Current liabilities	(14)	(13)

	2019 RMB'000	2018 RMB'000
Revenue	-	72
(Loss) profit for the year	(2)	72
Other comprehensive income for the year	1	128
Total comprehensive (expense) income for the year	(1)	200
Dividends received from the associate during the year	-	1,463

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

	31.12.2019 RMB'000	31.12.2018 RMB'000
Net assets of Ophol	31	32
Proportion of the Group's ownership interest in Ophol	24.49%	24.49%
Carrying amount of the Group's interest in Ophol	8	8

18. INTANGIBLE ASSETS

	Exclusive distribution rights	Patent rights	Product rights	Total
	RMB'000 (Note a & Note b(i))	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000
COST				
At 1 January 2018 and 31 December 2018	2,111,920	320,431	800,556	3,232,907
Addition	-	-	72,100	72,100
At 31 December 2019	2,111,920	320,431	872,656	3,305,007
AMORTISATION				
At 1 January 2018	239,049	98,369	155,163	492,581
Charge for the year	103,402	23,960	38,889	166,251
At 31 December 2018	342,451	122,329	194,052	658,832
Charge for the year	102,124	18,964	41,229	162,317
At 31 December 2019	444,575	141,293	235,281	821,149
IMPAIRMENT LOSS				
At 1 January 2018 and 31 December 2018	20,000	-	-	20,000
Charge for the year	4,730	-	-	4,730
At 31 December 2019	24,730	-	-	24,730
CARRYING VALUES				
At 31 December 2019	1,642,615	179,138	637,375	2,459,128
At 31 December 2018	1,749,469	198,102	606,504	2,554,075

Notes:

(a) Exclusive distribution rights

(i) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "XinHuoSu Agreements") with Tibet Pharmaceutical in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which was distributed in the PRC market under the trade name of XinHuoSu for a term of three years with effect from 1 July 2008 to 30 June 2011.

18. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(i) - continued

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

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

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

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

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(ii) - continued

During the year ended 31 December 2019, the management considers that there is an impairment indicator on the carrying amount of Three Products as the actual sales of Three Products was lower than previously expected. Management performed an impairment assessment by estimating the recoverable amount of Three Products. The recoverable amount of Three products has been determined from a value in use, based on the expected free cash flow up to the end of the exclusive distribution right as at a discount rate of 11% and an impairment loss of RMB4,730,000 (2018: nil) was recognised for the year ended 31 December 2019.

As at 31 December 2019, the exclusive distribution rights are fully impaired (2018 carrying amount: RMB5,103,000).

(iii) On 26 February 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, an independent third party, pursuant to which AstraZeneca AB granted an exclusive license to the Group for the commercialisation of Plendil (Felodipine Sustained Release Tablet) in the PRC, at a consideration of US$310,000,000 (equivalent to approximately RMB2,029,012,000). US$155,000,000 had been paid in 2016 and the remaining balance of US$155,000,000 had been paid in 2017. As at 31 December 2019, the carrying amount of the exclusive distribution right was approximately RMB1,640,118,000 (2018: RMB1,741,569,000).

Under the exclusive license agreement, the Group has agreed to meet certain pre-agreed annual sales target in relation to the sales of Pendil in the PRC for the first three years of the term of the exclusive license agreement from years ended 31 December 2016 to 2018, and the sales target had been reached. No additional annual sales target is required under the exclusive license agreement during the year ended 31 December 2019.

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

(b) Acquisition of exclusive distribution rights and patent rights

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(i) - continued

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

As at the acquisition date, the major patent rights owned by Tianjin Kangzhe, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to RMB137,917,000 and RMB8,287,000, respectively and the exclusive distribution rights owned by Tianjin Kangzhe amounted to RMB39,350,000. As at 31 December 2019, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were approximately RMB66,027,000, nil and nil, respectively (2018: RMB74,455,000, nil and nil).

The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to RMB5,813,000 and RMB7,715,000, respectively through the acquisition of a former subsidiary, Kangzhe Guangming. As at 31 December 2019, the carrying amount of the exclusive distribution right and patent right of XiDaKang were approximately RMB2,497,000 and RMB1,939,000, respectively (2018: RMB2,797,000 and RMB2,169,000).

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

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly held 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe Hunan, a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Sellers over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable (see note 30) in the amount of RMB6,145,000 at initial recognition which represents the present value of the annual consideration of RMB1,000,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the patent right of XiDaKang was also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the patent right owner of XiDaKang. As at 31 December 2019, the carrying amount was approximately RMB21,016,000 (2018: RMB23,540,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

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

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

During the year ended 31 December 2016, Kangzhe Lengshuijiang was deregistered and merged with Kangzhe Hunan. The assets and liabilities held by Kangzhe Lengshuijiang were transferred to Kangzhe Hunan at the time of merger and Kangzhe Hunan is responsible for the production of GanFuLe after the merger. As at 31 December 2019, the carrying amount of the patent right of GanFuLe was approximately RMB6,697,000 (2018: RMB8,059,000).

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

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

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right of DanShenTong owned by Xili Pharmaceutical, amounted to RMB114,489,000. As at 31 December 2019, the carrying amount was approximately RMB83,459,000 (2018: RMB89,879,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

(c) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with an independent third party, Pharma Stulln GmbH ("Pharma") in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions ("SAR")), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorisation for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly. As at 31 December 2019, the carrying amount of the product right was approximately RMB55,334,000 (2018: RMB59,150,000), which included a deferred consideration payable (see note 30) in the amount of approximately EUR1,000,000 (equivalent to approximately RMB7,815,000 (2018: EUR1,909,000 (equivalent to approximately RMB14,981,000)), which represented the present value of the annual consideration of EUR1,000,000 (equivalent to approximately RMB7,307,000) over next one (2018: two) years discounted at 10%.

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

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet (the "Products") with two independent third parties, Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorisation in Switzerland and imported drug license in China of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan), at a consideration of US$25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2019, the carrying amount was approximately RMB121,755,000 (2018: RMB129,872,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

(c) Acquisition of product rights - continued

(iii) On 25 March 2015, the Group entered into a series of agreements related to Combizym and Hirudoid (the "Purchased Products") with an independent third party, DKSH International AG, in connection with the purchase of (i) all trademarks regarding the Purchased Products; (ii) all market authorisations or similar licenses, certificates or approvals regarding the Purchased Products and all rights, benefits or other interests obtained; (iii) the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Purchased Products; and (iv) all books and records, commercial information and medical information related to the Purchased Products, with respect to Combizym in China, Hong Kong and Switzerland, and certain other designated countries or areas in Asia, and with respect to Hirudoid in China, at a consideration of Swiss Franc ("CHF") 76,600,000 (equivalent to approximately RMB486,019,000). As at 31 December 2019, the carrying amount was approximately RMB391,791,000 (2018: RMB417,482,000).

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

(iv) On 30 December 2014, the Group entered into an agreement related to Movicol (the "Product") with an independent third party, Norgine B.V., in connection with the purchase of the right to import, register, market, distribute, promote and sell the Product in the PRC including Hong Kong and Macau (the "Product Right"), at a consideration of EUR9,000,000 (equivalent to approximately RMB72,100,000), and such consideration has been recognised as deposit paid for acquisition of intangible asset as the Product is still under approval by the regulatory body. During the year ended 31 December 2019, the commercialisation of the Product has been approved by relevant regulatory body and therefore, the deposit has been transferred to intangible assets as it is probable that the expected future economic benefits that are attributable to the Product Right will flow to the Group. As at 31 December 2019, the carrying amount was approximately RMB68,495,000 (2018: Nil).

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

19. GOODWILL

For the purposes of impairment testing, the entire amount of goodwill has been allocated to five (2018: five) CGUs, representing five (2018: five) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical and Tibet Kangzhe Development (2018: Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical and Tibet Kangzhe Development). Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Hunan and Xili Pharmaceutical are engaged in production of medicines. The carrying amounts of goodwill as at 31 December 2019 and 2018 allocated to these units are as follows:

	2019 RMB'000	2018 RMB'000
Tianjin Kangzhe	1,160,333	1,160,333
Kangzhe Hunan	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	198,090	198,090
Tibet Kangzhe Development	1,854	1,854
	1,384,535	1,384,535

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

During the years ended 31 December 2019 and 2018, no impairment loss was recognised.

Tianjin Kangzhe

At 31 December 2019, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 12.3% (2018: 11%). Tianjin Kangzhe's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2018: 5%). This growth rate is based on management's best estimate and past experience on the industry.

19. GOODWILL - continued

Kangzhe Hunan

At 31 December 2019, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 11.9% (2018: 11%). Kangzhe Hunan's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2018: 4%). This growth rate is based on management's best estimate and past experience on the industry.

Xili Pharmaceutical

At 31 December 2019, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 13.5% (2018: 11%). Xili Pharmaceutical's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2018: 5%). This growth rate is based on management's best estimate and past experience on the industry.

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Financial assets at FVTPL

	2019 RMB'000	2018 RMB'000
Financial assets measured at FVTPL unlisted securities (note 40 (j))	2,736	-

(b) Equity instruments at FVTOCI

	2019 RMB'000	2018 RMB'000
Listed investments:		
Equity securities listed on London Stock Exchange Plc (the "LSE") (Note a)	34,136	10,279
Unlisted investments:		
Equity securities (Note b)	235,568	230,953
Total	269,704	241,232

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - continued

(b) Equity instruments at FVTOCI - continued

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

Notes:

(a) The listed equity investment represents ordinary shares of two (2018: one) entities listed on LSE. These investments are not held for trading, instead, they are held for long-term strategic purposes. The investments are denominated in British Pound ("GBP") and the fair values are based on the quoted market price. During the year ended 31 December 2019, the Group invested in Midatech Pharma Plc ("Midatech") for a consideration of approximately GBP4,000,000 (equivalent to RMB34,705,000) (note 40(i)), an loss on change in fair value of RMB14,523,000 (2018: RMB14,065,000) has been recognised in other comprehensive income.

(b) The unlisted equity investments represent the Group's equity interests in the following biotech/ pharmaceutical companies,

(1) Acticor Biotech ("Acticor"), an European company for a consideration of EUR4,000,000 (note 40(d)), equivalent to RMB30,607,000 (2018: EUR4,000,000, equivalent to RMB30,607,000);

(2) Blueberry Therapeutics Limited ("Blueberry"), a British company for a consideration of GBP5,000,000, equivalent to RMB44,771,000 (note 40(e)) (2018: GBP5,000,000, equivalent to RMB44,771,000);

(3) VAXIMM AG ("VAXIMM"), an European company for a consideration of approximately EUR2,725,000, equivalent to RMB21,653,000 (note 40(h)) (with additional investment of EUR225,000, equivalent to RMB1,742,000 during the year ended 31 December 2019) (2018: EUR2,500,000, equivalent to RMB19,911,000); and

(4) Neurelis, Inc. ("Neurelis"), an American company for a consideration of approximately US$19,937,000, equivalent to RMB138,537,000 (with additional investment of US$406,000, equivalent to RMB2,873,000 during the year ended 31 December 2019) (2018: US$19,531,000, equivalent to RMB135,664,000) (note 40(g)).

The fair values of the above unlisted equity investments were performed by Vigers Appraisal & Consulting Limited, a professional independent valuer. During the years ended 31 December 2019 and 2018, no change in fair value has been recognised in other comprehensive income.

21. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	11,283	16,015
Work in progress	14,580	13,495
Finished goods	381,195	405,151
	407,058	434,661

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Trade receivables	1,010,198	1,290,530
Less: Allowance for credit losses	(8,336)	(9,828)
	1,001,862	1,280,702
Bills receivables	414,017	291,621
Purchase prepayments	73,039	70,978
Prepaid lease payment	-	1,878
Other receivables and deposits	96,806	73,575
	1,585,724	1,718,754

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB1,003,640,000.

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

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

	2019 RMB'000	2018 RMB'000
Trade receivables		
0 - 90 days	923,722	1,008,465
91 - 365 days	78,140	272,237
	1,001,862	1,280,702
Bill receivables		
0 - 90 days	303,460	180,960
91 - 120 days	29,524	37,752
121 - 180 days	81,033	72,909
	414,017	291,621

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS -continued

As at 31 December 2019, total bills receivables amounting to RMB414,017,000 (2018: RMB291,621,000) are held by the Group. All bills receivables by the Group are with a maturity period of less than six months.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB93,057,000 (2018: RMB237,932,000) which are past due at the reporting date. Out of the past due balances, RMB70,103,000 (2018: RMB44,826,000) was aged 90 days or more and is not considered as in default. Based on the historical experiences of the Group, trade receivables past due are generally recoverable due to the long term relationship and good repayment record.

The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables as at 31 December 2019 and 2018 are set out in note 36.

23. DEPOSITS PAID FOR ACQUISITION OF INTANGIBLE ASSETS

	2019 RMB'000	2018 RMB'000
Deposits paid for acquisition of intangible assets	325,126	95,262

Note: Included in the deposits paid for acquisition of intangible assets, approximately RMB303,775,000 has been paid to Sun Pharmaceutical Industrial Ltd., an independent third party not connected with the Group, for certain exclusive distribution rights of medical products to be approved by relevant regulatory bodies for the sales in specific territories.

During the year ended 31 December 2019, the research on an intangible asset, of which the Group paid deposit of RMB963,000 has been suspended. The management considers that such deposit is not probable to be recovered and an impairment loss of RMB963,000 (2018: nil) was recognised in profit or loss for the year ended 31 December 2019.

24. AMOUNT DUE FROM AN ASSOCIATE

As at 31 December 2019, the balance of approximately RMB31,816,000 (2018: RMB31,816,000) represented deposit to Tibet Pharmaceutical for exclusive distribution right.

As at 31 December 2019, the balance of approximately RMB152,804,000 (2018: RMB137,749,000) represented promotion income receivables from Tibet Pharmaceutical. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 31 December 2019 was aged within three months (2018: within three months) based on the invoice date.

25. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.35% to 2.75% (2018: 0.35% to 2.75%) per annum.

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

	2019 RMB'000	2018 RMB'000
Euro ("EUR")	33,090	3,851
Hong Kong Dollar ("HK$")	12,749	2,081
United States Dollar ("US$")	2,927	5,462
CHF	717	2,547
GBP	1,266	35,287

26. TRADE AND OTHER PAYABLES

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

	2019 RMB'000	2018 RMB'000
0 - 90 days	37,941	104,724
91 - 365 days	4,762	5
Over 365 days	1,337	1,405
Trade payables	44,040	106,134
Payroll and welfare payables	124,873	100,679
Other tax payables	67,186	51,252
Accrued promotion expenses	85,555	41,254
Accruals	31,746	35,072
Other payables	19,396	47,824
	372,796	382,215

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

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

	2019 RMB'000	2018 RMB'000
EUR	10,012	9,635

27. LEASE LIABILITIES

	31/12/2019 RMB'000
Lease liabilities payable:	
Within one year	9,388
Within a period of more than one year but not more than two years	6,382
Within a period of more than two years but not more than five years	4,109
	19,879
Less: Amount due for settlement with 12 months shown under current liabilities	(9,388)
Amount due for settlement after 12 months shown under non-current liabilities	10,491

28. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Receipts in advance from customers - finished goods	12,939	5,469

As at 1 January 2018, contract liabilities amounted to RMB6,457,000.

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	5,469	6,457

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

The significant increase in contract liabilities in current year was mainly due to the increase in the minimum balance of the receipt in advance from customers.

29. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank loans	693,909	1,465,195
Analysed as:		
Secured	10	105,000
Unsecured	693,899	1,360,195
	693,909	1,465,195

	2019 RMB'000	2018 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	693,909	25,000
Within a period of more than one year but not exceeding two years	-	1,440,195
	693,909	1,465,195
Less: Amounts due within one year shown under current liabilities	(693,909)	(25,000)
Amounts shown under non-current liabilities	-	1,440,195

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

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2019 RMB'000	2018 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 5.22% to 5.23% per annum as at 31 December 2019 and range from 5.22% to 5.23% per annum as at 31 December 2018)	10	105,000
Variable-rate borrowings (Note b)		
Denominated in US$ (3.53% as at 31 December 2019 and 31 December 2018) (Note a)	693,899	1,360,195
Total	693,909	1,465,195

29. BANK BORROWINGS - continued

Notes:

(a) Variable rate at London Interbank Offered Rate ("LIBOR") plus 1.8% as at 31 December 2019 (2018: LIBOR plus 1.8%).

(b) As at 31 December 2019, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB693,899,000 (2018: RMB1,360,195,000). The principal amount of the variable-rate bank borrowings will be repayable on 23 June 2020. Details of the interest rate swaps are disclosed in note 32.

During the year ended 31 December 2018, in respect of a bank loan with a carrying amount of RMB25,000,000 as at 31 December 2018, a subsidiary of the Company breached certain of the terms of the bank loan, which were primarily related to the debt-asset ratio of the subsidiary. As at 31 December 2018, the bank borrowings of RMB25,000,000 has already been classified as a current liability based on the originally agreed repayment period. Such bank borrowing of RMB25,000,000 has been fully repaid during the year ended 31 December 2019.

As at 31 December 2019, the Group had unutilised banking facilities of approximately RMB1,718,562,000 (2018: RMB1,904,740,000).

30. DEFERRED CONSIDERATION PAYABLES

	2019 RMB'000	2018 RMB'000
Non-current	5,099	9,926
Current	10,744	8,847
	15,843	18,773

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (see note 18(b) (ii)). In addition to the first payment of RMB30,000,000, further consideration is payable annually of RMB1,000,000 for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to RMB6,145,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2019, the carrying value amounting to RMB4,170,000 (2018: RMB3,792,000) was included in deferred consideration payables.

30. DEFERRED CONSIDERATION PAYABLES - continued

During the year ended 31 December 2014, the Group acquired all assets related to Stulln for the Chinese Market, part of the consideration is payable annually in the amount of EUR1,000,000 (equivalent to approximately RMB7,307,000) for five years since 2016. The present value of the discounted consideration determined based on a discount rate of 10% amounting to approximately EUR3,614,000 (equivalent to approximately RMB30,342,000) was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2019, the carrying value amounting to approximately EUR1,000,000 (equivalent to approximately RMB7,815,000) (2018: EUR1,909,000 (equivalent to approximately RMB14,981,000)) was included in deferred consideration payables.

During the year ended 31 December 2019, the Group acquired both shares and warrants issued by a company listed on LSE at a lump sum consideration of approximately GBP4,000,000 (note 40(i)) (equivalent to approximately RMB34,705,000). Upon the acquisition, as the fair value of the warrant is not based on a valuation technique that uses only data from observable markets, the difference between the aggregate of fair value of both shares and warrants at the date of initial recognition and the consideration was recognised and included within deferred consideration payables and amortised over the exercise period of the warrants. As at 31 December 2019, the carrying value amounting to approximately GBP435,000 (equivalent to approximately RMB3,858,000) was included in deferred consideration payables.

The movement of the deferred difference on initial recognition of financial instruments is shown as follows:

	RMB'000
On 29 January 2019 (date of initial recognition)	5,787
Charge to profit or loss	(1,929)
At 31 December 2019	3,858

31. DEFERRED TAX

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

	Unrealised profits on inventories	**Fair value adjustments to assets acquired in business combinations**	**Unrealised profit of equity instruments at FVTOCI**	**Fair value (gain) loss on cash flow hedges**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	25,681	(38,550)	(63,964)	(1,984)	1,201	(77,616)
(Charge) credit to profit or loss for the year (note 10)	(6,170)	3,767	-	-	-	(2,403)
Charge to other comprehensive income	-	-	-	(680)	-	(680)
At 31 December 2018	19,511	(34,783)	(63,964)	(2,664)	1,201	(80,699)
(Charge) credit to profit or loss for the year (note 10)	(437)	7,195	-	-	-	6,758
Credit to other comprehensive income	-	-	-	2,687	-	2,687
At 31 December 2019	19,074	(27,588)	(63,964)	23	1,201	(71,254)

31. DEFERRED TAX - continued

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	20,298	20,712
Deferred tax liabilities	(91,552)	(101,411)
	(71,254)	(80,699)

At 31 December 2019, the Group had unused tax losses of approximately RMB38,420,000 (2018: RMB38,290,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2019 are tax losses of approximately RMB20,657,000 (2018: RMB22,935,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2019, tax losses of approximately RMB4,266,000 (2018: RMB698,000) was expired. During the year ended 31 December 2019, the Group utilised unrecognised tax loss of RMB292,000 (2018: Nil).

As at 31 December 2019, the Group had deductible temporary differences of RMB605,235,000 (2018: RMB599,167,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB76,296,000 (2018: RMB78,044,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB528,939,000 (2018: RMB521,123,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB4,746,003,000 (2018: RMB3,701,717,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

32. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Assets:		
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	-	16,144
Foreign exchange forward contracts	27,422	16,722
Warrants	770	-
	28,192	32,866
Liabilities:		
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	(142)	-
	28,050	32,866

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms, such as principal amounts, interest rate spread, start dates, repayment data, maturity and counterparties, and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps as at 31 December 2019 and 2018 are set out below:

At 31 December 2019

Notional amount (Note)	Contract date	Maturity date	Receive	Pay
US$72,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$25,600,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$2,400,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

At 31 December 2018

Notional amount (Note)	Contract date	Maturity date	Receive	Pay
US$40,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$32,000,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$113,000,000	18 August 2017	23 June 2020	LIBOR + 1.8%	3.54%
US$15,000,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

Note: The notional amount will be expired on 23 June 2020, which are the same as corresponding bank borrowings.

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Interest rate swaps - continued

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. During the year ended 31 December 2019, the fair value loss of approximately RMB16,286,000 (2018: RMB4,121,000), income tax of approximately RMB2,687,000 (2018: RMB680,000), resulting in a net amount of approximately RMB13,599,000 (2018: RMB3,441,000) have been recognised in other comprehensive income and accumulated in equity and are expected to be released to profit or loss at various dates during the lives of the swaps when the hedged interest expense is recognised in profit or loss.

Foreign Exchange Forward Contract

The Group uses foreign exchange forward contracts to minimise its exposure to exchange rate change on its bank borrowings. The foreign exchange forward contracts and the corresponding bank borrowings have the same principal amounts and maturity dates. Major terms of the foreign exchange forward contracts as at 31 December 2019 and 2018 are set out below:

At 31 December 2019

Notional amount	Maturity date	Exchange rate range agreed
US$100,000,000 (Note)	23 June 2020	US$1:RMB6.7 to RMB7.2

At 31 December 2018

Notional amount	Maturity date	Exchange rate range agreed
US$200,000,000 (Note)	23 June 2020	US$1:RMB6.7 to RMB7.2
EUR1,500,000	4 January 2019	EUR1:RMB7.81

Note: During the year ended 31 December 2019, the fair value gain of approximately RMB10,700,000 (2018: RMB16,722,000) have been recognised in other gains and losses (see note 6).

Warrants

As set out in note 30, the Group acquired warrants issued by a company listed on LSE on 29 January 2019, which are classified as a derivative financial instrument as at 31 December 2019.

The fair value of the derivative financial instrument as at 31 December 2019 was approximately GBP84,000 (equivalent to approximately RMB770,000) which is determined by Vigers Appraisal & Consulting Limited, a professional independent valuer, based on the Binomial Model.

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Warrant - continued

The inputs used for the calculation of fair value of the derivative financial instrument are as follows:

	29 January 2019 (date of grant)	31 December 2019
Share price	GBP0.041	GBP0.028
Exercise price	GBP0.5	GBP0.5
Expected volatility	81%	92%
Expected option life	3 years	2.08 years
Expected dividend yield	0%	0%
Risk-free rate	0.83%	0.53%

The expected volatility adopted were based on average annualised standard deviations of the continuously compounded rates of return of the share price of Midatech as of the valuation date. The fair value calculated for the warrants is inherently subjective due to the assumptions made and the limitations of the model utilised.

The movement of the warrant is shown as follows:

	RMB'000
On 29 January 2019 (date of grant)	2,566
Charge to profit or loss	(1,796)
At 31 December 2019	770

33. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2018, 31 December 2018 and 31 December 2019	20,000,000	765,218
Issued and fully paid		
At 1 January 2018	2,487,248	85,200
Shares repurchased and cancelled (Note)	(6,839)	(237)
At 31 December 2018 and 31 December 2019	2,480,409	84,963

33. SHARE CAPITAL - continued

Note: During the year ended 31 December 2018, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of ordinary shares of US$0.005 each	Price per share		Aggregated consideration paid
		Highest	Lowest	
11 October 2018	1,122,000	HK$8.90	HK$8.78	HK$9,960,300
12 October 2018	150,000	HK$9.10	HK$9.07	HK$1,364,800
15 October 2018	150,000	HK$9.27	HK$9.24	HK$1,398,810
16 October 2018	500,000	HK$9.12	HK$9.03	HK$4,542,680
18 October 2018	500,000	HK$9.00	HK$8.90	HK$4,479,210
19 October 2018	500,000	HK$9.18	HK$9.16	HK$4,589,840
23 October 2018	500,000	HK$9.09	HK$8.93	HK$4,504,150
25 October 2018	500,000	HK$9.10	HK$8.97	HK$4,525,610
26 October 2018	500,000	HK$8.86	HK$8.75	HK$4,418,130
14 November 2018	500,000	HK$9.20	HK$9.12	HK$4,576,230
30 November 2018	800,000	HK$8.52	HK$8.52	HK$6,816,000
07 December 2018	1,117,000	HK$7.80	HK$7.64	HK$8,617,200

The above ordinary shares were cancelled upon repurchase.

1,272,000 ordinary shares were repurchased by a subsidiary of the Company during the year ended 31 December 2018.

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2018 and 2019.

34. RESERVES

Capital reserve

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Shenzhen Kangzhe granted by Mr. Lam Kong, a director and former shareholder of Shenzhen Kangzhe, to certain employees for their services rendered in prior year, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered in prior year, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Shenzhen Kangzhe to Sino Talent Limited ("Sino Talent") pursuant to the group restructuring in 2005 and the nominal value of Shenzhen Kangzhe's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International Limited ("CMS International") and Healthlink Consultancy Inc. ("Healthlink") pursuant to the group reorganisation in 2006 and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007. The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated on or before 2006.

34. RESERVES - continued

Capital reserve - continued

On 19 April 2010, the Group acquired an additional interest in Sky United. An amount of approximately RMB15,026,000, representing the excess of the fair value of the new ordinary shares issued by the Company over the decrease in the carrying value of the non-controlling interest is charged to capital reserve.

During the year ended 31 December 2010, a deemed distribution to a shareholder was charged to capital reserve in respect of expenses incurred for a shareholder during the initial public offering exercise by the Company.

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Derivative instruments under hedge accounting (cash flow hedges-interest rate swaps)	-	16,144
Derivative financial instrument		
- foreign exchange forward contracts	27,422	16,722
- warrants	770	-
Financial assets at amortised cost	3,062,313	2,556,969
Equity instruments at FVTOCI	269,704	241,232
Financial asset at FVTPL	2,736	-
Financial liabilities		
At amortised cost	(898,061)	(1,672,215)
Derivative instruments under hedge accounting (cash flow hedges-interest rate swaps)	(142)	-

Financial risk management objectives and policies

The Group's major financial instruments include financial asset at FVTPL, equity instruments at FVTOCI, trade and other receivables, amount due from an associate, derivative financial instruments, bank balances and cash, trade and other payables, lease liabilities, bank borrowings and deferred consideration payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 29) and lease liabilities (see note 27). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 25) and variable-rate bank borrowings (see note 29). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates at LIBOR arising from the Group's US$ denominated borrowings. The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flow of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rates swaps are designated as effective hedging instruments and hedge accounting is used (see note 32). Accordingly, no sensitivity analysis is presented.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Interest income of RMB41,998,000 (2018: RMB26,076,000) from financial assets that are measured at amortised cost and loans and receivables (including cash and cash equivalents) for the year ended 31 December 2019.

Interest expense of RMB56,255,000 (2018: RMB71,885,000) on financial liabilities not measured at fair value through profit or loss that are measured at amortised cost for the year ended 31 December 2019.

Market risk

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 45% (2018: 57%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (representing financial asset at FVTPL, trade and other receivables and bank balances and cash) and monetary liabilities (representing trade and other payables, deferred consideration payables and bank borrowings) at the reporting date are as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
US$	5,663	5,462	694,757	1,362,587
EUR	34,593	3,851	17,827	24,616
GBP	1,266	35,287	3,858	-
HK$	12,749	2,990	-	-
CHF	717	2,547	-	-

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

The Group is mainly exposed to currency risk of the US$, Eur, GBP, HK$ and CHF. The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in foreign currency rates. The sensitivity analysis includes financial asset at FVTPL, derivative financial instruments, bank balances, trade and other payables, bank borrowings and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% (2018: 5%) against the relevant foreign currencies. If there is a 5% (2018: 5%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year:

	2019 RMB'000	2018 RMB'000
RMB (as functional currency of the relevant group entities) against US$	25,841	50,892
RMB (as functional currency of the relevant group entities) against EUR	(629)	779
RMB (as functional currency of the relevant group entities) against GBP	97	(1,323)
RMB (as functional currency of the relevant group entities) against HK$	(478)	(112)
RMB (as functional currency of the relevant group entities) against CHF	(27)	(96)

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

Other price risk management

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in pharmaceutical industry sector quoted in the LSE.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Other price risk management - continued

Sensitivity analysis

The following details the Group's sensitivity to a 10% (2018:10%) increase and decrease in the quoted market price of the equity securities. 10% (2018: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the quoted market price of the equity securities. If there is a 10% (2018:10%) higher/lower in the quoted market price of the equity securities, the other comprehensive income would be increased/decreased by RMB3,414,000 (2018: RMB1,028,000).

The management considers that the other price risk in respect of financial asset at FVTPL is minimal due to the insignificant balance as at 31 December 2019.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, bank balances, amount due from an associate and derivative financial instruments. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix based on share credit risk characteristics by reference to repayment history for recurring customers and current past due exposure for the new customers.

Except for the derivative financial instruments, financial asset at FVTPL and equity instruments at FVTOCI, the Group performed impairment assessment for financial assets and other items under ECL model.

Trade receivables arising from contracts with customers

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed every year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued or guaranteed by reputable PRC banks, if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Trade receivables arising from contracts with customers - continued

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2018: 100%) of the total trade receivables as at 31 December 2019. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for items that are subject to individual assessment, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for new customers. No Impairment loss has been recognised during the years ended 31 December 2019 and 2018. Details of the quantitative disclosures are set out below in this note.

Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on this, the 12m ECL on bank balances is considered to be insignificant.

Amount due from an associate

The Group regularly monitors the business performance of the associate. The Group's credit risk in this balance is mitigated through the value of the assets held by this entity and the power to participate in the financial and operating policy decision of this entity. The Group performs impairment assessment under ECL model on this trade balance individually and the directors of the Company believe that there are no significant increases in credit risk of these amounts since the trade receivables due from the associate have been subsequently settled. For the years ended 31 December 2019 and 2018, the Group assessed the ECL for amount due from an associate to be insignificant and thus no loss allowance was recognised.

Other receivables

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportable and forward-looking information available without undue costs or effort. The directors of the Company believe that there are no significant increase in credit risk of these amounts since most of the other receivables have been subsequently settled. For the years ended 31 December 2019 and 2018, the Group assessed the ECL for other receivables and deposits to be insignificant and thus no loss allowance for credit losses was recognised.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

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

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

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amount		2018 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost							
Trade receivables	22	Note 1	Lifetime ECL - Provision matrix	1,005,013		1,284,814	
		Loss	Credit impaired	5,185	1,010,198	5,716	1,290,530
Bills receivables (Note 2)	22	Low risk	12m ECL	414,017		291,621	
Amount due from an associate (Notes 2 and 3)	24	Low risk	12m ECL	31,816		31,816	
			Lifetime ECL – Non credit impaired	152,804	184,620	137,749	169,565
Bank balances (Note 2)	25	Low risk	12m ECL	1,365,008		815,081	
Other receivables (Note 2)	22	Low risk	12m ECL	96,806		73,575	

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes:

(1) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating. As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its pharmaceutical operation.

Provision matrix - internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2019 and 2018 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amount of RMB2,613,000 as at 31 December 2019 (2018: RMB3,934,000) were assessed individually.

Gross carrying amount

	2019		2018	
Internal credit rating	Average loss rate	Trade receivables RMB'000	Average loss rate	Trade receivables RMB'000
Normal risk	0.1%	921,145	0.1%	1,008,465
Doubtful	2.5%	83,868	1.2%	276,349
Loss	100%	2,572	100%	1,782
		1,007,585		1,286,596

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

During the year ended 31 December 2019, approximately RMB531,000 (2018: Nil) of impairment allowance was written-off on debtors with significant balances and credit-impaired debtors.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes: - continued

(1) **Provision matrix - internal credit rating** - continued

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

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2018, 31 December 2018 and 1 January 2019	4,112	5,716	9,828
Write-offs	(961)	(531)	(1,492)
As at 31 December 2019	3,151	5,185	8,336

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier. The Group has taken legal action against the debtors to recover the amount due. No additional impairment loss on trade receivables has been provided during the year ended 31 December 2019 as the Group has already made adequate provision for credit loss on trade receivables as at 31 December 2018.

(2) The Group assessed the loss allowance for bills receivables, other receivables, bank balances and amount due from an associate in relation to deposit for exclusive distribution right on 12m ECL basis. In determining the ECL of the bank balances, the Group has taken into account the counterparties are reputable banks with high credit ratings assigned by international credit agencies and forward looking information as appropriate. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies and the management considers that the expected credit loss on the bank balances is immaterial. In determining the ECL other than the bank balances, the Group has taken into account the historical default experience and forward looking information as appropriate, including changes in growth rate of gross domestic product of the PRC. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that the expected credit loss on these balances is immaterial.

(3) The Group assessed the loss allowance for amount due from an associate with trade nature on Lifetime ECL basis. In determining the ECL, the Group has taken into account the value of the assets held by this entity and the power to participate in the financial and operating policy decision of this entity. There had been no significant increase in credit risk since initial recognition. No additional impairment loss on trade receivables has been provided during the years ended 31 December 2019 and 2018 as the entire balance has been subsequently settled.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2019, the Group has available unutilised banking facilities of approximately RMB1,718,562,000 (2018: RMB1,904,740,000) respectively. Details of which are set out in note 29.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of the reporting period.

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2019
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019					
Non-derivative financial liabilities					
Trade and other payables	-	188,309	-	188,309	188,309
Deferred consideration payables	5.43	10,744	5,570	16,314	15,843
Fixed rate bank borrowings	5.23	10	-	10	10
Variable-rate bank borrowings	3.54	706,164	-	706,164	693,899
Lease liabilities	4.75	10,332	11,215	21,547	19,879
		915,559	16,785	932,344	917,940

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2018
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018					
Non-derivative financial liabilities					
Trade and other payables	-	188,247	-	188,247	188,247
Deferred consideration payables	10	8,847	11,134	19,981	18,773
Fixed rate bank borrowings	5.22	25,326	93,203	118,529	105,000
Variable-rate bank borrowings	3.54	48,151	1,380,455	1,428,606	1,360,195
		270,571	1,484,792	1,755,363	1,672,215

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments

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

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

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

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

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

Financialassets		Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
		31/12/2019	31/12/2018			
1)	Interest rate swaps classified as derivative financial instruments	Liabilities - RMB142,000	Assets - RMB16,144,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Nil
2)	Foreign exchange forward contracts classified as derivative financial instruments	Assets - RMB27,422,000	Assets - RMB16,722,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rate and contracted exchange rate, discounted at a rate that reflects the credit risk of various counterparties.	Nil
3)	Equity instruments at FVTOCI - Listed	Listed equity securities on the LSE - RMB34,136,000	Listed equity securities on the LSE - RMB10,279,000	Level 1	Quoted bid prices in an active market.	Nil
4)	Financial asset at FVTPL	Assets – RMB2,736,000	Nil	Level 1	Quoted bid prices in an active market.	Nil

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis - continued

Financial assets		Fair value as at 31/12/2019	Fair value as at 31/12/2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
5)	Equity instruments at FVTOCI - Unlisted	Unlisted equity investments: RMB 235,568,000	Unlisted equity investments: RMB230,953,000	Level 3	Black-Scholes approach. Black-Scholes Option Pricing Model are based on risk-free rate, expected volatility, expected dividend yield and liquidation timing.	Estimation of expected volatility, determined by reference to the expected volatility of comparable companies.
6)	Warrant classified as derivative financial instruments	Assets - RMB770,000	Nil	Level 3	Binomial Model - Binomial Pricing Model. Valuation of the derivative financial instruments is based on share price, exercise price, risk-free rate, expected option life, expected dividend yield and expected volatility.	Estimation of expected volatility determined by reference to the expected volatility of Midatech

Sensitivity analysis

If the expected volatility of the comparable companies had been 5% higher/lower while all other variables were held constant, the Group's fair value of equity instruments as at 31 December 2019 would have increased/decreased by approximately RMB272,000.

If the expected volatility of Midatech had been 5% higher/lower while all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would have increased/decreased by approximately RMB240,000.

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(ii) Reconciliation of Level 3 fair value measurements

	Financial assets at FVTOCI RMB'000	Financial assets at FVTPL RMB'000	Total RMB'000
As at 1 January 2018	-	-	-
Purchases	230,953	-	230,953
As at 31 December 2018	230,953	-	230,953
Purchases	4,615	2,566	7,181
Total losses			
- in profit or losses	-	(1,796)	(1,796)
As at 31 December 2019	235,568	770	236,338

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

There is no transfer among Level 1, Level 2 and Level 3 during both years.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings	Deferred consideration payables	Dividend payables	Lease liabilities	Total
	RMB'000 (note 29)	RMB'000 (note 30)	RMB'000 (note 12)	RMB'000 (note 27)	RMB'000
At 1 January 2018	2,105,048	26,698	-	-	2,131,746
Financing cash flows	(762,969)	(9,807)	(728,515)	-	(1,501,291)
Dividends declared	-	-	728,515	-	728,515
Finance costs	70,029	1,856	-	-	71,885
Net foreign exchange loss	53,087	26	-	-	53,113
At 31 December 2018	1,465,195	18,773	-	-	1,483,968
Adjustment upon application of IFRS 16	-	-	-	9,499	9,499
At 1 January 2019 (restated)	1,465,195	18,773	-	9,499	1,493,467
Financing cash flows	(855,457)	(7,834)	(822,752)	(9,094)	(1,695,137)
Release on deferred difference on initial recognition of financial instruments	-	(1,929)	-	-	(1,929)
Dividends declared	-	-	822,752	-	822,752
Finance costs	53,862	1,079	-	1,314	56,255
Net foreign exchange loss	30,309	(33)	-	-	30,276
Commencement of new leases	-	-	-	18,160	18,160
Non-cash transaction (note 47)	-	5,787	-	-	5,787
At 31 December 2019	693,909	15,843	-	19,879	729,631

38. OPERATING LEASE

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000
Within one year	4,152
In the second to fifth year inclusive	6,289
	10,441

Operating lease payments represent rental payable by the Group for certain of its office premises and warehouses. The lease is negotiated for a lease term of 1 to 5 years at fixed monthly rental. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew.

The Group does not have an option to purchase the leased asset at the expiry of the lease period.

39. CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Capital expenditure in respect of the acquisition of financial asset at FVTPL, property, plant and equipment and intangible assets contracted for but not provided in the consolidated financial statements	21,034	20,560

40. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related financial parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below, in addition to the transactions and balances disclosed elsewhere in the consolidated financial statements.

40. RELATED PARTY TRANSACTIONS - continued

(a) The Group entered into the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2019	2018
			RMB'000	RMB'000
Ophol	Associate	Interest expense	-	71
Tibet Pharmaceutical	Associate	Promotion income	527,985	406,084
Tibet Pharmaceutical	Associate	Service fee	1,132	-

(b) Pursuant to a transfer agreement dated 16 February 2004 (as supplemented by a supplemental agreement dated 2 November 2004) and a further agreement dated 16 December 2007 between Shenzhen Kangzhe and Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D")", the Group acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, of which 83.23% equity interest is indirectly held by a controlling shareholder as at 31 December 2019 and the date of this report. Pursuant to the terms of the agreement, as consideration for the transfer of CMS024, Shenzhen Kangzhe paid US$3.1 million to Kangzhe R&D as compensation for the actual research and development costs incurred by Kangzhe R&D, and further agreed to pay a royalty fee of 13% of the quarterly sales revenue generated by the Group after CMS024 is successfully launched. The Group has appointed Kangzhe R&D to carry out further research and development related to CMS024, and Kangzhe R&D has undertaken to complete all the clinical trials and prepare the documents necessary for and assist the Group in the application for a new-drug permit for CMS024. The Group has not paid any fee to Kangzhe R&D during the years ended 31 December 2019 and 2018.

(c) On 8 May 2015, A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, entered into agreements with Faron Pharmaceuticals Ltd ("Faron"), to acquire 15.72% of the shareholding of Faron, assets related to Traumakine in China (including Hong Kong SAR, Macau SAR and Taiwan) (the "Territory"), intellectual properties related to Traumakine from the Territory and the right to exchange Traumakine information with Faron.

On 19 May 2015, the Group entered into agreements with A&B and/or Faron respectively, to acquire the assets related to Traumakine in the Territory. The consideration for above transfer will be further negotiated and agreed between A&B and the Group at a later stage prior to the launch of Traumakine in the Territory, the amount would be calculated with reference to the net sales of Traumakine in the Territory.

The acquisition was not yet completed up to the date of this report and the Group has not paid any consideration to A&B in respect of this acquisition during the years ended 31 December 2019 and 2018.

40. RELATED PARTY TRANSACTIONS - continued

(d) On 31 July 2018, each of the Group and A&B invested in Acticor for the consideration of approximately EUR4,000,000 (note 20(b)(b)(1)) (equivalent to RMB30,607,000), respectively.

On the same date, the Group entered into an asset transfer and license agreement with Acticor. According to the terms of such agreement, the Group acquired all assets (the "Assets of ACT017") related to Acticor's product ACT017 and any follow-up products developed on the basis of the same compound of ACT017 (the "Product of ACT017") in China (including Hong Kong SAR, Macau SAR and Taiwan), Singapore, Philippines, Republic of Korea, Malaysia and other designated Asian countries (excluding Japan, India and Western Asia countries) (the "Asia Pacific Territory") in consideration of an upfront payment of EUR50,000 (equivalent to RMB384,000) which has been paid as at 31 December 2018. Such amount has been included in deposits paid for acquisition of intangible assets (see note 23) as at 31 December 2019 and 2018. The Assets of ACT017 include without limitation all the know-how, intellectual property or the right of application for the intellectual property, necessary regulatory approvals, documents, dossiers, data or information exclusive for Asia Pacific Territory and other rights as necessarily required to develop, register, manufacture and commercialise the Product of ACT017 in the Asia Pacific Territory. In addition, the Group also acquired all the necessary licenses related to the transaction under this agreement in consideration of (1) a royalty at a fixed rate on the basis of the net sales of Product of ACT017 generated in Asia Pacific Territory and (2) lump sum payments with varied fixed amount, each payable upon the first achievement of respective pre-determined milestones stipulated in the agreement.

As Product of ACT017 has not yet been commercialised, the Group has not paid any consideration for Product of ACT017 during years ended 31 December 2019 and only paid consideration of EUR50,000 (equivalent to RMB384,000) during the year ended 31 December 2018.

(e) On 14 August 2018, each of the Group and A&B invested in Blueberry for the consideration of GBP5,000,000 (note 20(b)(b)(2)) (equivalent to RMB44,771,000), respectively.

On the same date, the Group entered into an asset transfer and license agreement with Blueberry. According to the terms of such agreement, the Group has acquired all related assets of Blueberry's leading product BB2603 (for the treatment of onychomycosis and tinea pedis) in China (including Hong Kong SAR, Macau SAR and Taiwan), Republic of Korea, Democratic People's Republic of Korea and Mongolia (the "Asia Territory") and the Group further acquired access to all related assets of other pipeline products being or to be developed subsequently by Blueberry utilizing its unique nanoformulation delivery system in dermatology and other fields (such as products used for treating atopic dermatitis and acne, etc., together with the product BB2603 as the "Product of BB2603") in the Asia Territory in consideration of (1) an upfront payment of USD600,000 (equivalent to RMB4,090,000), (2) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of BB2603 in Asia Territory. The aforementioned assets include, among others, all the national patents covering the development, commercialization and formulation of the Product of BB2603, national trademarks and necessary regulatory approvals in or for the Asia Territory.

40. RELATED PARTY TRANSACTIONS - continued

(e) As the milestone as well as the commercialisation of Product of BB2603 has not yet been achieved as at 31 December 2019 and 2018, the Group has only paid the upfront payment of USD600,000 (equivalent to RMB4,090,000) as the consideration for Product of BB2603 during year ended 31 December 2018. Such amount has been included in deposits paid for acquisition of intangible assets (see note 23) as at 31 December 2019 and 2018.

(f) On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the portable neurostimulation devices developed by or for Helius Medical Technologies group ("Helius") (the "Product of PoNS"). According to the terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of PoNS (the "Assets of PoNS") in the Territory (the "Transaction of PoNS"). The Assets were originally purchased by A&B from Helius, in which A&B has equity interest. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction, including the consideration for the transfer of the Assets of PoNS under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction at a later stage prior to the launch of the Product of PoNS in the Territory. As at 31 December 2019, the Group and A&B has not yet negotiated and agreed on the terms of the Transaction of PoNS and the Group has not paid any consideration to A&B in respect of the Transaction of PoNS during the years ended 31 December 2019 and 2018.

(g) During the year ended 31 December 2018, the Group and A&B invested in Neurelis for the consideration of approximately US$19,531,000 (equivalent to RMB135,664,000) and US$15,000,000 (equivalent to RMB104,342,000), respectively.

During the year ended 31 December 2019, each of the Group and A&B further invested in Neurelis for the consideration of approximately US$406,000 (equivalent to RMB2,873,000) (note 20(b)(b)(4)).

On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the pharmaceutical preparation, formulation, dosage form, or delivery vehicle, containing or comprising NRL-1 etc. and/or line extensions developed by or for Neurelis, Inc. ("Neurelis") (collectively, the "Product of NRL-1"). According to terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of NRL-1 (the "Assets of NRL-1") in the Territory (the "Transaction of NRL-1"). A&B obtained the Assets of NRL-1 from its related entity which in turn obtained the Assets of NRL-1 from Neurelis. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction, including the consideration for the transfer of the Assets of PoNS under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction of NRL-1 at a later stage prior to the launch of the Product of NRL-1 in the Territory. As at 31 December 2019, the Group and A&B have not yet negotiated and agreed on the terms of the Transaction of NRL-1 and the Group has not paid any consideration to A&B in respect of the Transaction of NRL-1 during the years ended 31 December 2019 and 2018.

(h) On 19 September 2018, each of the Group and A&B invested in VAXIMM for the consideration of approximately EUR2,500,000 (note 20(b)(b)(3)) (equivalent to RMB19,911,000), respectively.

40. RELATED PARTY TRANSACTIONS - continued

(h) On the same date, the Group entered into license and collaboration agreement with VAXIMM. According to the terms of such agreement, the Group gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize the current pharmaceutical products portfolio and line extension of or under the control of VAXIMM (the current leading product is VXM01) as well as designated pharmaceutical products and line extension that will be solely owned and under the control of VAXIMM (the "Product of VXM01") in Asia Pacific Territory in consideration of (1) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement, (2) lump sum payments with varied fixed amount, each payable upon the first achievement of respective net sales stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of VXM01 in Asia Pacific Territory.

As Product of VXM01 has not yet been commercialised, the Group has not paid any consideration in relation to Product of VXM01 during years ended 31 December 2019 and 2018.

On 2 and 3 December 2019, each of the Group and A&B further invested in VAXIMM for the consideration of approximately EUR225,000 (equivalent to RMB1,742,000), respectively.

(i) On 29 January 2019, each of the Group and A&B invested in Midatech Pharma PLC ("Midatech") for the consideration of approximately GBP4,000,000 (notes 20(b)(a) and 30) (equivalent to RMB34,705,000), respectively.

On the same date, the Group entered into a license, collaboration and distribution agreement with Midatech. According to the terms of such agreement, the Group will gain exclusive, perpetual, transferable, sub-licensable rights to develop and commercialise Midatech's current products mainly including MTD201, MTX110 (subject to receipt of consent from Novartis Pharma AG) and any new pharmaceutical products or line extension the intellectual property rights and other rights of which Midatech controls and which Midatech or its affiliates have given a codename within three years from 29 January 2019 (the "Products") in China (including Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan) and certain Southeast Asian countries selected by the Group (including Singapore, Philippines, Malaysia and other countries, subject to confirmation by the Group once a regulatory approval is granted by the US Food and Drug Administration, the European Medicines Agency or by one of the regulatory authorities in one of the UK, France, Germany or Switzerland).

As Products have not yet been commercialised, the Group has not paid any consideration in relation to Products during year ended 31 December 2019.

(j) During the year, the Group and A&B invested in a capital fund for a consideration of approximately US$388,000 (equivalent to RMB2,736,000) (note 20(a)) respectively.

(k) During the year ended 31 December 2017, each of the Group and A&B invested in Destiny Pharma Plc. ("Destiny") for the consideration of approximately GBP3,000,000 (equivalent to RMB26,291,000), respectively.

During the year ended 31 December 2017, the Group entered into an agreement with Destiny. According to the terms of such agreement, the Group will gain exclusive sub-licensable rights to develop and commercialise Destiny's current products mainly including XF-73 (the "Products of XF-73") in Asia Pacific Territory.

As Products of XF-73 have not yet been commercialised, the Group has not paid any consideration in relation to Products during year ended 31 December 2019 and 2018.

(l) The key management personnel includes solely the directors of the Company and the compensation paid to them as disclosed in note 8.

41. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

The employees employed in Macau are required to join the Social Security Fund (the "FSS"). Contributions to FSS are made in accordance with the statutory limits prescribed by the Social Security System of Macau.

The employees employed in Malaysia are required to join the Employees Provident Fund ("EPF"). Contributions to the EPF Scheme are made in accordance with the statutory limits prescribed by the Public Pension (Kumpulan Wang Simpanan Pekerja, "KWSP") of Malaysia.

The employees employed in Dubai are required to be entitled to gratuity based on the years of services under the labour law of United Arab Emirates Ministry of Human Resources and Emiratisation.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to RMB43,793,000 (2018: RMB43,052,000).

42. EMPLOYEE BENEFIT SCHEME

The 2009 Scheme was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think appropriate select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

42. EMPLOYEE BENEFIT SCHEME - continued

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the 2009 Scheme is classified as defined contribution scheme.

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

42. EMPLOYEE BENEFIT SCHEME - continued

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 5% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subject to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. The Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2019, the Company recognised an expense of RMB14,000,000 (2018: RMB9,000,000) on the Master Scheme based on the Group's financial performance. RMB14,000,000 (2018: RMB9,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

43. SUBSIDIARIES OF THE COMPANY

As at 31 December 2019 and 31 December 2018, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (Note i)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2019	31 December 2018	31 December 2019		31 December 2018		
				Directly	Indirectly	Directly	Indirectly	
CMS International (Note a)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (wholly-owned domestic enterprise)	PRC	RMB36,750,000	RMB36,750,000	-	100%	-	100%	Production of medicines
Tibet Kangzhe Enterprise Management Co. Ltd. (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Kangzhe Pharmaceutical Industrial Ltd. (Note a)	British Virgin Islands	RMB21,288,000	RMB21,288,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Changde Kangzhe Plarmaceutical Co.,Ltd (wholly-owned domestic enterprise)(Note b)	PRC	-	RMB2,000,000	-	-	-	100%	Marketing and promotion of drugs

43. SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries (Note i)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2019	31 December 2018	31 December 2019		31 December 2018		
				Directly	Indirectly	Directly	Indirectly	
CMS Pharma Co. Ltd. (Note c)	Malaysia	-	US$1	-	-	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Great move (Note a)	British Virgin Islands	US$10,000	US$10,000	-	100%	-	100%	Investment holding
Generous Wealth Limited (Note a)	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Tianjin Kangzhe (wholly foreign-owned enterprise)	PRC	RMB500,000,000	RMB500,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Lengshuijiang Kangzhe Pharmaceutical Co., Ltd, (wholly-owned domestic enterprise)	PRC	RMB22,359,050	RMB7,000,000	-	100%	-	100%	Production of medicines
Kangzhe Agricultural (wholly-owned domestic enterprise)	PRC	RMB20,000,000	RMB20,000,000	-	100%	-	100%	Agriculture
香港鼎成投資有限公司 (Note a)	Hong Kong	HK$10,000	HK$10,000	-	100%	-	100%	Investment holding
Bridging Pharma Limited (Note a)	United Kingdom	GBP100	GBP100	-	100%	-	100%	Investment holding
Bridging Pharma GmbH (Note a)	Switzerland	CHF20,000	CHF20,000	-	100%	-	100%	Investment holding
Xili Pharmaceutical (sino-foreign equity joint venture)	PRC	RMB11,360,000	RMB11,360,000	-	52.01%	-	52.01%	Production of medicines
Tibet Kangzhe Technology (wholly-owned domestic subsidiary)	PRC	RMB3,000,000	RMB3,000,000	-	100%	-	100%	Marketing and promotion of drugs
Tibet Kangzhe Development (wholly-owned domestic subsidiary)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
CMS Bridging Limited (formerly known as Everest Fortune Limited)	Hong Kong	HK$1,000,000,000	HK$1	-	100%	-	100%	Investment holding
CMS Medical Venture Investment Limited	British Virgin Island	US$50,000	US$50,000	-	100%	-	100%	Investment holding
CMS Medical Limited (Note d)	Malaysia	-	US$1	-	-	-	100%	Investment holding
CMS Medical Venture Investment (HK) Limited	Hong Kong	HK$100	HK$100	-	100%	-	100%	Investment holding
CMS International Development and Management Limited	Macau	MOP$25,000	MOP$25,000	-	100%	-	100%	Trading of drugs
CMS Medical Hong Kong Limited	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Shenzhen Kangzhe Pharmaceutical Service Limited	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Provision of service
CMS Pharma DMCC(Note e)	Dubai	DH50,000	-	-	100%	-	-	Trading of drugs
CMS Bridging DMCC(Note f)	Dubai	DH50,000	-	-	100%	-	-	Investment holding

43. SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries (Note i)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2019	31 December 2018	31 December 2019		31 December 2018		
				Directly	Indirectly	Directly	Indirectly	
Luminous Future Investment Company Limited(Note g)	Hong Kong	HK$100	-	-	100%	-	-	Assets holding
Shenzhen Kangzhe Bio-Tech Limited (Note h)	PRC	RMB5,000,000	-	-	100%	-	-	Provision of service

Notes:

(a) Being inactive subsidiaries.
(b) The subsidiary was deregistered on 23 January 2019.
(c) The subsidiary was disposed of on 17 December 2019.
(d) The subsidiary was disposed of on 29 November 2019.
(e) The subsidiary was registered on 15 August 2019.
(f) The subsidiary was registered on 15 August 2019.
(g) The subsidiary was acquired on 25 March 2019.
(h) The subsidiary was registered on 25 October 2019.
(i) None of the subsidiaries had issued any debt securities at the end of the year.

44. DISPOSAL OF A SUBSIDIARY

On 17 December 2019, the Group entered into a sales and purchase agreement (the ''Agreement") with purchaser (the "Purchaser"), who is the spouse of a director of CMS Pharma Co., Ltd. ("CMS Pharma"). Pursuant to the Agreement, the Group agreed to sell and the Purchaser agreed to purchase the entire equity interest in CMS Pharma, a wholly-owned subsidiary of the Group, at a consideration of US$1 (equivalent to RMB7). The consideration was determined after arm's length negotiation between the Group and the Purchaser. The transaction was completed on 17 December 2019 on which date control of CMS Pharma passes to the purchaser.

CMS Pharma is principally a trading company. Pursuant to the Agreement, the Group was entitled to all creditor's rights and all benefits, interests, right to all receivables accrued to, and assume all liabilities and payables of CMS Pharma in respect of business trading, regulatory or tax arising from transactions that occurs prior to 17 December 2019 (i.e. the date of disposal).

44. DISPOSAL OF SUBSIDIARIES - continued

The net assets at the date of disposal were as follows:
Analysis of assets and liabilities over which control was lost

	17 December 2019 RMB'000
Bank balance and cash	16,078
Amount due to Group's companies	(16,078)
Cash consideration	-

	31 December 2019 RMB'000
Net cash outflow arising on disposal:	
Cash consideration received (Note)	-
Less: bank balances and cash disposed of	(16,078)
	(16,078)

Note: US$1 (equivalent to RMB7) has been received as cash consideration.

Gain on disposal of RMB7 has been recognised and included in "others" under others gains and losses during the year ended 31 December 2019.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
Non-current asset		
Interests in subsidiaries	4,279,255	3,236,839
Current assets		
Amount due from a subsidiary	1,000,000	1,900,000
Bank balances and cash	2,019	2,403
	1,002,019	1,902,403
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	2,218	3,698
	5,176	6,656
Net current assets	996,843	1,895,747
Total assets less current liabilities	5,276,098	5,132,586
Capital and reserves		
Share capital (note 33)	84,963	84,963
Reserves	5,191,135	5,047,623
Total equity	5,276,098	5,132,586

Movement in reserves

	Share premium RMB'000	Capital reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Total RMB'000
Balance at 1 January 2018	2,444,296	6,960	1,148,146	346,474	3,945,876
Profit and total comprehensive income for the year	-	-	1,883,045	-	1,883,045
Dividends paid	-	-	(382,041)	(346,474)	(728,515)
Dividends proposed	-	-	(355,691)	355,691	-
Repurchase of ordinary shares	(52,783)	-	-	-	(52,783)
Balance at 31 December 2018	2,391,513	6,960	2,293,459	355,691	5,047,623
Profit and total comprehensive income for the year	-	-	966,264	-	966,264
Dividends paid	-	-	(467,061)	(355,691)	(822,752)
Dividends proposed	-	-	(315,260)	315,260	-
Balance at 31 December 2019	2,391,513	6,960	2,477,402	315,260	5,191,135

46. EVENTS AFTER THE REPORTING PERIOD

(a) The financial impact of the outbreak of COVID-19 on the Group's financial statements

Since the outbreak of COVID-19 in January 2020, a series of precautionary and control measures have been and continued to be implemented across China and other parts of the world. The Group will pay close attention to the development of COVID-19. To prevent the outbreak from having material adverse effects on the businesses, the Group actively cooperates with the government for various precautionary and control measures to resume business and production, carries out online academic conferences, and keeps close communication with overseas suppliers.

Given the dynamic nature of the unpredictability of future development, the directors of the Company consider that the financial effects on the Group's consolidated financial statements cannot be reasonably estimated as at the date when these financial statements are authorised for issue, but will be reflected in the Group's future financial statements for the financial year ending 2020 and onwards.

(b) Repurchase of ordinary shares

Subsequent to the end of the reporting period, the Company repurchased an aggregate of 9,648,000 ordinary shares of US$0.005 each from the open market at an aggregate consideration of HK$98,164,100. All of the repurchased shares were cancelled on 30 March 2020.

(c) Change of independent non-executive director of the Company

Subsequent to the end of the reporting period, Mr. Cheung Kam Shing, Terry had resigned as an independent non-executive director of the Company with effect from 31 March 2020 and Ms. Luo, Laura Ying was appointed as an independent non-executive director with effect from 31 March 2020.

47. NON-CASH TRANSACTION

As disclosed in note 30, during the year ended 31 December 2019, the Group acquired both shares and warrants issued by a company listed on LSE at a lump sum consideration of approximately GBP4,000,000 (note 40(i)) (equivalent to approximately RMB34,705,000). Upon the acquisition, the difference between the aggregate of fair value of both shares and warrants at the date of initial recognition and the consideration was recognised as deferred consideration payables amounting approximately RMB5,787,000.