康哲®

CMS 康哲药业 CHINA MEDICAL SYSTEM

2021 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. WU Chi Keung (resigned on 6 October 2021)
Mr. LEUNG Chong Shun
Ms. LUO Laura Ying
Mr. FUNG Ching Simon (appointed on 6 October 2021)

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee

Mr. FUNG Ching Simon (Chairman) (appointed on 6 October 2021)
Mr. WU Chi Keung (resigned on 6 October 2021)
Mr. LEUNG Chong Shun
Ms. LUO Laura Ying

Remuneration Committee

Mr. LEUNG Chong Shun (Chairman)
Mr. WU Chi Keung (resigned on 6 October 2021)
Ms. LUO Laura Ying
Mr. FUNG Ching Simon (appointed on 6 October 2021)

Nomination Committee

Ms. LUO Laura Ying (Chairman)
Mr. LAM Kong
Mr. WU Chi Keung (resigned on 6 October 2021)
Mr. LEUNG Chong Shun
Mr. FUNG Ching Simon (appointed on 6 October 2021)

Environmental, Social and Governance Committee

Ms. CHEN Yanling (Chairman)
Mr. WU Chi Keung (resigned on 6 October 2021)
Mr. LEUNG Chong Shun
Mr. FUNG Ching Simon (appointed on 6 October 2021)

Auditors

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Principal Bankers

China Merchants Bank Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (China) Limited
The Hongkong and Shanghai Banking Corporation Limited

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
Nanshan District
Shenzhen 518052
Guangdong Province
The PRC

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

Stock Code

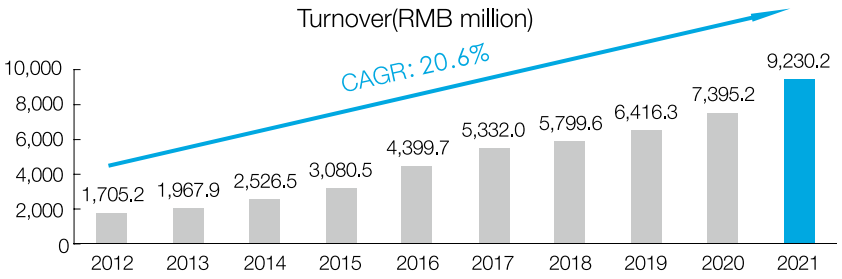
867

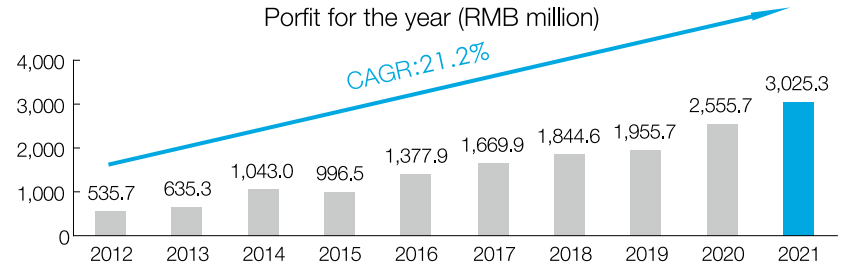
Company's Website

www.cms.net.cn

- Turnover up 20.0% to RMB8,337.2 million (2020: RMB6,946.0 million); in the case that all medicines were directly sold by the Group, turnover up 24.8% to RMB9,230.2 million (2020: RMB7395.2 million)
- Gross profit up 21.7% to RMB6,246.9 million (2020: RMB5,134.2 million); in the case that all medicines were directly sold by the Group, gross profit up 24.7% to RMB6,039.2 million (2020: RMB4,842.7 million)
- Profit for the year up 18.4% to RMB3,025.3 million (2020: RMB2,555.7 million)
- Basic earnings per share up 19.4% to RMB1.2228 (2020: RMB1.0237)
- As at 31 December 2021, the Group's bank balances and cash amounted to RMB3,385.7 million while readily realizable bank acceptance bills amounted to RMB453.4 million
- Proposed final dividend of RMB0.2269 per share, bringing the total dividend for the year ended 31 December 2021 to RMB0.4910 per share, representing an increase of 18.7% over last year (2020: final dividend of RMB0.2033 and total dividend of RMB0.4138 per share)

Turnover (in the case that all medicines were directly sold by the Group) and profit of the Group for the last ten years are set out below:





Consolidated Statement of Financial Position Highlights

	As at 31 December				
	2017	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	10,148,843	10,506,452	11,170,976	12,701,067	15,807,879
Total liabilities	2,820,586	2,102,377	1,654,844	1,598,352	2,960,892
Net assets	7,328,257	8,404,075	9,516,132	11,102,715	12,846,987

BUSINESS HIGHLIGHTS

During the Reporting Period, the Group recorded steady business growth; made several breakthroughs in clinical trials for innovative medicines in China; initiated new models for industrial investment in Chinese Biotech and customized development of innovative products; split the dermatology specialty line and expanded its business boundaries to the new business field of medical aesthetics. The new CMS has started a new journey.

Sustainable Incubation Platform of Innovative Medicines

- Initiated a new model for industrial investment in Chinese Biotech. By leveraging its clinical execution, commercialization capabilities and capital strength, the Group promoted advantages complementarity with Chinese Biotech to build a domestic incubation platform for innovative medicines; made equity investment in Trinomab and established a joint venture to develop 4 fully human antibody new drugs.
- Initiated the model of innovative products customization. The Group entrusted CROs for customized drug development with a focus on novel or popular targets of the Group's advantageous therapeutic fields, aiming to proactively promote the development of domestic innovative technologies and products; entrusted a CRO company for customized development of 4 innovative drugs with intellectual property rights mainly covering the treatment of autoimmune system, gynecology, cardio-cerebrovascular and central nervous system related diseases.

Progress in Innovative Product Development in China

- The bridging trial of Diazepam Nasal Spray in China achieved the expected targets, and its new drug application was accepted in July.
- The bridging trial of Tildrakizumab Solution for Injection in China achieved positive results and its new drug application was accepted in October.
- The new drug application of Methotrexate Injection, Pre-filled Syringe (psoriasis indication) in China was accepted in December and granted priority review designation in January, 2022.
- The clinical trial application of Methotrexate Injection, Pre-filled Syringe (RA indication) in China was approved in August.
- The clinical trial application of Desidustat Tablets was approved in China. Its phase I PK study was completed, and the first subject dosing of phase III bridging trial in China was completed in January, 2022.
- The clinical trial application of Methylthioninium Chloride Enteric-coated Sustained-release Tablets in China was approved in August, and the first subject dosing was completed in January, 2022.

Dermatology and Medical Aesthetic Business

- Acquired Luqa, a dermatology and medical aesthetic specialty company, to enrich the dermatological portfolio and extend its reach to the medical aesthetic field.
- Acquired Carnation, a focused ultrasound technology platform company, to initiate R&D and manufacturing of energy-based medical aesthetic devices. The related work of pivotal clinical study of FUBA5200 Focused Ultrasound Body Contouring System was initiated in China.
- Acquired Xuli Medical, a medical aesthetic specialty company, to obtain the exclusive distribution right of Vmonalisa, the 4th imported South Korean hyaluronate filler for injection approved in China, and expand its professional teams as well as channel resources in the medical aesthetic field.
- Reached an exclusive collaboration agreement with OVMEDI on the embedding thread product with good quality and complete specifications, to meet the diversified needs of Chinese beauty-loving people.

CHAIRMAN'S STATEMENT

Dear shareholders and partners,

In 2021, the COVID-19 pandemic has been protracted and repeated around the world, and the growth of global trade and investment has slowed down. The global economy has faced major challenges such as balancing inflationary pressure and economic growth, addressing energy shortages and reducing carbon emissions. The Chinese government has continued to implement macro policies aimed at increasing support for efforts to ensure employment and people's well-being, expand domestic demand, and promote the transformation to green and low-carbon energy. New industries, new forms and models of business have unleashed tremendous vitality and became major drivers for the stable growth, transformation and upgrading of economy. In the meanwhile, with remarkable achievements made in the deepened industry reform, the pharmaceutical industry will usher in a new era of development after the structural adjustment. In the past year, China Medical System Holdings Limited (the "Company") constantly strived for breakthroughs with innovation and change, having achieved satisfactory operational performance that further strengthened our determination and confidence for the future. On behalf of the Board of Directors of the Company (the "Board of Directors" or the "Board"), I would like to sincerely thank all our staff, shareholders and partners, and take pleasure in presenting you the Annual Report of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2021 (the "Reporting Period").

The "New CMS" Development Path in the New Era

China's pharmaceutical innovation has achieved rapid development from scratch with the help of favorable policies and capital supports for the past few years, and ushered in the first year of commercialization of innovative medicines in 2021. However, given the high repetition and homogenization of domestic novel targets, as well as dual pressures from national medical insurance cost control and centralized procurement in China, the commercialization competition will certainly accelerate a new round of industrial restructuring. In the new era, it has become critical for pharmaceutical companies to strengthen commercialization capabilities and differentiate development strategies to survive and stand out. Taking into account the trend and our advantages, we re-positioned ourselves and started anew, having formed a clearer innovative development strategy and a specialty-fields-focused business model, and successfully connected and integrated internal and external advanced resources, so as to promote high-quality, sustainable and healthy development of the Company.

Capitalizing on Management and Control of Key Stages in the Entire Life-cycle of Medicines, to Build an Open Innovative Medicine Platform Connecting Pharmaceutical Innovation and Commercialization

CMS has been collaborating with global partners since its establishment, and has accumulated abundant successful experience and good reputation, and developed an open and collaborative culture. Under the new industrial structure, the collaboration between innovative forces and CMS is further expanded and deepened. By continuously strengthening our competencies in key stages of the entire life-cycle of innovative medicines, including innovative medicine investment and incubation (investment, merger and acquisition (M&A)), product development (project establishment, clinical development and registration) and commercialization (the National Reimbursement Drug List (NRDL) inclusion, market access, and retail marketing), we have gradually transitioned to the role as a bridge connecting pharmaceutical innovation and commercialization, and will promote the platform-based development of innovative medicines to constantly launch innovative medicines and empower the development of China's innovation ecosystem.

Our commercialization capabilities built up over the years are the cornerstone for building the innovation platform. With market-proven commercialization strengths in the prescription medicine field, which include NRDL inclusion, academic promotion, and brand building capabilities, in recent years, we proactively promoted the construction of multi-channel sales networks and capitalized on the internet and new media to extend the hospital-based commercialization network to the retail market. Meanwhile, we also worked on the expansion of our commercialization network from Mainland China to Hong Kong and Southeast Asian countries. After continuous iteration and optimization, we have established an open commercialization platform for diversified product portfolios with different consumption attributes, in different specialty fields and different regions, so as to constantly unlock the value of innovative medicines driving by business synergy and scale.

Our continuously enhanced management and control capabilities in key stages, such as investment, M&A, clinical development and registration, have effectively bolstered the rapid progress in innovation collaborations. With extensive doctor resources and academic networks in our commercialization system, we are able to keep abreast of market demands, and continuously invest in or acquire select innovative products that meet clinical needs via leveraging our sophisticated project evaluation system and dedicated team of professionals. At the same time, we have actively integrated industrial resources with our own strengths, and efficiently promoted the clinical development and registration of innovative medicines in China through strict control of project establishment, clinical design, patient enrollment, registration and other key stages.

In 2021, while making investment and deployment of overseas innovative products at relatively mature stages, we capitalized on the above core competencies to initiate two new models for innovative research: the industrial investment in Chinese Biotech and the customized development of innovative products, and reached strategic collaborations on 8 innovative medicines. So far, nearly 30 products had been added to our innovative pipeline, among them, 3 products' new drug applications were accepted, 2 products obtained positive results from their China bridging trials, and 3 products obtained clinical trial approvals in China.

Promoting Independent Operation of Specialty Lines, to Build Leading Enterprises in Specialty Markets

Having nearly three decades of experience under our belt, we have established leading positions in a number of specialty fields. Based on our advantageous resources in these specialty fields, we promoted the independent operation of specialty lines and constructed a multi-entity responsibility operation system, in hope to build leading enterprises in these specialty markets. We also formed moderately diverse incentive policies to stimulate internal dynamics to drive better growth.

In 2021, we split the dermatology business and acquired Luqa to enrich the dermatological product portfolio and enter the medical aesthetic field. The medical aesthetic industry, featured with both medical and consumption attributes, requires scientific technologies to drive quality development. Thus, we adopted a scientific research mindset to deploy medical aesthetic products via mergers and acquisitions, and built brand value with a focus on customers. To create competition barriers for long-term development, we worked on the consolidation and development of our product competence, channel strength and organization power. After a year of polishing, reconstruction and symbiosis, "CMS Aesthetics" has entered a new stage of development and is about to take off.

In recent years, China's ophthalmic market has shown an exponential growth trend, while a huge treatment gap exists. Based on our existing ophthalmology products, as well as the ophthalmologist resources and promotion networks accumulated over the years, we strategically planned for the independent operation of ophthalmology line to further improve the operation scale and efficiency in the ophthalmology field. We aim to identify, develop and commercialize urgently needed ophthalmological diagnosis and treatment solutions, and to build a leading ophthalmic pharmaceutical and device company in China.

With the operation strategy of specialty line splitting, we further promoted reform on group management. Through adjustments in the management and control system, organization structure, functional division, various incentives, etc., we have built a multi-level strategic management and control system with "strategy-management-execution" independent of each other, so as to create an effective, replicable and widely applicable group management and operation model that conforms to the increasingly diversified business system and the Group's long-term development needs.

Being a Socially Responsible Corporate Citizen

In 2021, our Environmental, Social and Governance (ESG) performance was widely recognized by all sectors of society. We maintained the ESG rating from Morgan Stanley Capital International (MSCI) at "AA", which surpassed 83% of our global peers, and received multiple ESG-related awards. These honors are inseparable from our efforts in corporate social responsibility over the years. As a pharmaceutical company, we are fully aware of the social significance of the pharmaceutical industry and the social responsibility undertaken by pharmaceutical companies, and we have been committed to offering patients more affordable, cost-effective, safe and effective quality medicines based on clinical needs. Meanwhile, we have been actively paying attention to environmental protection and social welfare, and have incorporated relevant concepts into the formulation of the Group's operation strategies, made monetary and material donations in unexpected disasters, and carried out regular activities to promote the sustainable development of society. As China's economy advances towards high-quality development, sustainable development has become the trend of the times. We will continue to be a socially responsible corporate citizen, operate in accordance with laws and regulations, strive to undertake more social responsibilities, and work together with all stakeholders to create a green, fair, healthy, high-quality and sustainable industrial and social ecology.

Looking Ahead with Full Confidence

The year of 2022 marks the 30th anniversary of the establishment of CMS. I am delighted to see that CMS is still upholding its original aspiration, embracing changes and continuously innovating while maintaining steady operation. We are full of confidence for the future. With the moat built by our advantageous capabilities and the support of new business models, new products and new businesses, we will continue to forge ahead to provide quality and accessible innovative medicines for patients, empower our employees with a desirable career platform, reward our shareholders with industry-leading profitability, and lead our company toward sustainable development and ever-lasting prosperity!

Chairman
Lam Kong
Hong Kong, China
15 March 2022

Company Overview

CMS is a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China, dedicated to offering competitive products and services to meet China's unmet needs for medical care, health and beauty.

CMS has strong capabilities and professional teams covering key stages of the entire life-cycle of pharmaceutical products. In line with the clinical needs of patients, the Groups focuses on deploying innovative products that are global first-in-class, or with the best efficacy, safety or cost-effectiveness in the class due to their innovative formulations or drug delivery systems, mainly through equity investment in overseas biotech companies ("Overseas Biotech") and strategic collaboration with global leading biopharmaceutical companies ("Global Biopharma"), industrial investment in Chinese biotech companies ("Chinese Biotech"), and customized development of innovative medicines. The Group has built an innovative pipeline of early-, mid- and late-phase products with relatively high innovation level, promising market potential and competitive differentiation advantages. The Group covers extensive expert and hospital network resources in wide therapeutic fields, and owns professional clinical development and registration teams, which run the clinical development and registration of innovative medicines in China with high efficiency and quality. The Group has created professional brand images and leading market positions for a number of medicines by leveraging its open commercialization platform, which is compliant, professional and with multi-channels coverage. With strong product competence, powerful commercialization capability and refined management system, the Group has become one of the pharmaceutical companies with the highest operating efficiency in China.

While maintaining the in-depth development of the pharmaceutical business, the Group leverages on its commercialization strengths, including brand and expert resources in specialty fields, and continuously promotes the independent operation of specialty lines to expand its business depth and breadth, and its specialty-fields-focused business structure has further bolstered the Group's long-lasting growth.

Business Review

During the Reporting Period, the Group has achieved sustained and steady growth in business performance via expansion of products brand influences, integration and synergy of promotional team and channel resources, as well as reinforcement of the compliant, efficient and refined management. During the Reporting Period, the Group recorded a turnover of RMB8,337.2 million (2020: RMB6,946.0 million), representing an increase of 20.0% over the same period last year; in the case that all medicines were directly sold by the Group, turnover would increase by 24.8% to RMB9,230.2 million (2020: RMB7,395.2 million). Profit for the year reached RMB3,025.3 million (2020: RMB2,555.7 million), representing an increase of 18.4% over the same period last year.

In recent years, the Chinese pharmaceutical industry has been undergoing a "genetic recombination" driven by both demands and policies, and it has become a non-negligible trend for industry chain participants to utilize their strengths to seek for diversified collaborative development. By capitalizing on its capabilities in management and control of key stages in the entire life-cycle of innovation medicines, including the innovative medicine investment and incubation (investment, M&A), product development (project establishment, clinical development and registration) and commercialization (NRDL inclusion, market access, and retail marketing), the Group has managed to build an open innovative medicines incubation platform bridging the pharmaceutical innovation and commercialization with the support of its professional teams and extensive resources in specialty fields. The Group actively approached and collaborated with global R&D forces to build an efficient pharmaceutical innovation ecosystem featured with collaborative and win-win mentality and strong synergy effect. At the same time, the Group proactively coordinated internal and external resources for incubation of independently-operated business units in specialty fields, and promoted the rapid development of the dermatology and medical aesthetic business, forming a replicable model for the specialty–fields-focused development strategy.

I. Innovative Research

Based on the clinical needs of patients, the Group has built a comprehensive, diversified and open system for investment, M&A, and development of innovative medicines, which effectively balances the efficiency of R&D input-output and provides continuous driving force for innovation, to build an innovative medicine incubation platform with "CMS characteristics".

1. Initiating Industrial Investment in Chinese Biotech to Build an Incubation Platform of Innovative Medicines for Biotech Companies

In recent years, Chinese Biotech have continuously made breakthroughs in innovative biotechnologies via leveraging their talent advantages, capital support and favorable policies, taking the Chinese pharmaceutical innovation into a new development cycle. In order to make both parties to focus on their own strengths and achieve an open, win-win cooperation and strong alliance, and improve the innovative medicines development efficiency in China, the Group initiated the model of industrial investment in Chinese Biotech with innovative technology platforms.

In April 2021, the Group announced that it would make equity investment in and establish a joint venture for co-development of innovative drugs with Trinomab Biotech Co., Ltd (珠海泰諾麥博生物技術有限公司, the English name is for identification purpose) ("Trinomab"). As at 31 December 2021, the Group held 5.97% equity interests in Trinomab. Both parties own 50% of the equity interest of the joint venture, and the Group made capital contribution in cash and Trinomab made capital contribution using the rights and interests regarding the related technologies of collaborative products as intangible assets. According to the agreements, Trinomab will be responsible for drug discovery and preclinical studies, while the Group being responsible for clinical development, registration, and commercialization, etc., to promote integration and complementarity of advantageous industrial resources, and accelerate the clinical development and commercialization progress of domestic innovative products.

Trinomab's core technology is the fourth-generation antibody technology platform HitmAb®. The advantage of the natural fully human monoclonal antibodies developed by the platform is the high safety, having broad spectrum to foreign pathogens and strong affinity with pathogen targets, which can solve the problem of anti-drug antibody reaction in the clinical use of antibody drugs developed by traditional technologies. During the Reporting Period, the Group reached collaboration with Trinomab for 4 innovative products developed by the HitmAb® platform, the Fully Human Anti-Staphylococcus Aureus (SA) Alpha-hemolysin (Hlα) Antibody, Fully Human Anti-Human Cytomegalovirus (HCMV) Antibody, Fully Human Anti-SARS-CoV-2 (COVID-19) Antibody and Fully Human Anti-rabies Virus Antibody, all of which were injected into the joint venture. In the future, both parties will continue to negotiate to promote the prioritized collaboration on other specific products.

2. Initiating the Customization of Innovative Products

The Group owns an operation system and professional team that manage and control key R&D processes that cover from target selection, structure-activity relationship study, process development, preclinical research to clinical development. Meanwhile, the Group has maintained long-term close collaborations with first-class medical colleges in China and leveraged on their academic resources and scientific research facilities to jointly overcome innovation difficulties, further enhancing the Group's innovation capability in fundamental research through the in-depth industry-academy-research cooperation. In order to enhance its R&D efficiency, the Group entrusts CROs for customized drug development with a focus on novel or popular targets of its advantageous therapeutic fields, and takes initiatives to manage and control entire life-cycle of innovative medicines, aiming to make breakthroughs in domestic innovative technologies and products and empower the innovative technology development in China.

In December, 2021, the Group entrusted a CRO for the customized development of 4 innovative drugs mainly related to the treatment of diseases in autoimmune system, gynecology, cardio-cerebrovascular and central nervous system. According to the collaboration agreement, the Group owns the global intellectual property rights and related interests of the customized innovative products, and the CRO is responsible for pre-clinical studies of the products until the products are granted approvals for clinical trials from the National Medical Products Administration (NMPA) in China.

3. Equity Investment in Overseas Biotech and Strategic Collaboration with Global Biopharma

Based upon patients' clinical needs, the Group has been deploying overseas innovative products at relatively mature stages through equity investment in Overseas Biotech and strategic collaboration with Global Biopharma since the second half of 2017, aiming to improve the accessibility of Chinese patients to overseas innovative medicines. As at 31 December 2021, through these methods, the Group has acquired the clinical development and commercialization rights mainly regarding Chinese market of a number of innovative products that are in the mid- and late-phase of clinical development or have been approved for marketing in the United States (the U.S.) and/or Europe. Among them, the Group has made equity investment in 7 Overseas Biotech and acquired related innovative products.

II. Innovative Pipeline

The Group adopts various methods to enrich and develop the innovative pipeline with products at different development phases and risk levels that truly meet patients' clinical needs. Meanwhile, the Group fully utilizes its resource advantages of experts, networks and talents in the industry, to accelerate the clinical development progress of innovative products in China.

As at 31 December 2021, the Group has acquired nearly 30 innovative products with relatively high innovation level, promising market potential and competitive differentiation advantages from all over the world. Among them, 9 products had been approved for marketing in the U.S. and/or Europe. During the Reporting Period, the new drug applications of 3 innovative products were accepted by NMPA; 2 innovative products obtained positive results from their China bridging trials; 3 innovative products obtained clinical trial approvals from NMPA.

1. Continuously Expanding the Innovative Pipeline

Fully Human Anti-SA Hlα Antibody - a natural fully human anti-SA antibody drug with Hlα neutralizing activity

Fully Human Anti-SA Hlα Antibody can neutralize the Hlα released by SA to avoid immune downregulation to B cells and to improve immune response. The product is developed to prevent disease progression in high-risk groups for SA colonization and treat pneumonia, bacteremia, and toxic shock caused by SA, especially Methicillin-resistant SA (MRSA), and it is in the preclinical stage currently. Hlα toxin is the most widely expressed one among toxins SA produced, while there is no Hlα antibody drug launched in the world currently. The product has good safety and its preclinical studies have shown good Hlα toxin neutralizing activity. It is expected to solve the problems of high mortality, resistance to treatment and side effects from SA infection.

Fully Human Anti-HCMV Antibody - a natural fully human antibody drug with HCMV neutralizing activity

Fully Human Anti-HCMV Antibody can neutralize free viruses in blood and has the capacity for neutralization within cells twice. The product is developed for the prevention of HCMV infection, and it is in the preclinical stage currently. There is no HCMV vaccine launched in the world so far. The product has a precise mechanism of action and excellent safety, and can be produced on a large scale under strict quality control due to its non-blood-derived production process. It is expected to fill the gap of HCMV monoclonal antibodies in the world.

Fully Human Anti-COVID-19 Antibody - a natural fully human antibody effective against major current strains with low immunogenicity

Fully Human Anti-COVID-19 Antibody, a neutralizing antibody cocktail, can provide broad neutralizing activities and cover a wider population. The product is developed for the prevention and treatment of COVID-19 infection, and it is in the preclinical stage currently. The product has the advantages of good safety, specificity and high affinity, and its preclinical data shows that it is effective against major current strains, including the South African and Indian variants. Facing the potential pandemic caused by these variants, the product is expected to further meet the global needs for prevention and treatment of COVID-19 infection.

Fully Human Anti-rabies Virus Antibody - an accessible natural fully human antibody with low immunogenicity and high affinity

Fully Human Anti-rabies Virus Antibody can confer passive immune response to rabies virus through providing required neutralizing antibodies at the site of exposure within 0-7 days after exposure, when the body is not able to generate its own antibodies induced by active immunization with vaccine. The product is in the preclinical stage currently. The marketed passive immunization agents in China are subject to production capacity limitation due to the blood plasma-derived production process, and their market penetration rate is relatively low. As a non-blood plasma-derived product, Fully Human Anti-rabies Virus Antibody may become a passive immunization medicine for rabies virus that is not limited by related production capacity issues, while having high safety and strong affinity.

2. Accelerating the Clinical Development of Innovative Products in China

Diazepam Nasal Spray - an innovative medicine targeting acute repetitive seizures that is convenient to use outside the medical setting with a very rapid onset of action (approved for marketing in the U.S.)

In July 2021, the new drug application of Diazepam Nasal Spray was accepted by NMPA.
In March 2021, the Group completed the product's bridging trial in China, which is a comparative pharmacokinetics (PK) study. The result showed the absorption of a single intranasal dose of Diazepam Nasal Spray was fast and complete, while the PK parameters of diazepam and its active metabolite desmethyl diazepam were similar to those observed in relevant study in the U.S., achieving the expected targets. It was also shown to be safe and well tolerated in healthy Chinese subjects. The product is an intranasally administered, proprietary formulation of diazepam with relatively high absolute bioavailability, developed for the 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. Its formulation incorporates the unique combination of a vitamin E-based solvent and Intravail® absorption enhancement, which helps it to obtain unparalleled absorption, tolerability, and reliability.

Tildrakizumab Solution for Injection - a monoclonal antibody specifically targeting IL-23 (approved for marketing in the U.S., Europe, Australia, Japan and Canada)

In October 2021, the new drug application of Tildrakizumab Solution for Injection was accepted by NMPA.
In March 2021, the Group completed the enrollment of all the 220 subjects in its phases III bridging trial in China, which only took around 2.5 months (including the Chinese Spring Festival) and strongly proved the Group's efficient clinical execution capability by leveraging its extensive sales and promotion networks and expert resources. In July, the Group announced the trial obtained positive results, and the preliminary data demonstrated that comparing with placebo, the treatment of the product for 12 weeks significantly increased the proportion of subjects who have achieved at least 75% of improvement in psoriasis area and severity index (PASI 75). The product is a humanized IgG1/k monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23(IL-23) and inhibit its interaction with the IL-23 receptor, leading to inhibition of the release of pro-inflammatory cytokines and chemokines. It is developed for the treatment of patients with moderate-to-severe plaque psoriasis, and is expected to be a safe, effective and most cost-effective novel monoclonal antibody targeting IL-23.

Methotrexate Injection, Pre-filled Syringe
- expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of psoriasis in China (approved for marketing in Europe)

In December 2021, the new drug application of Methotrexate Injection, Pre-filled Syringe for the treatment of severe recalcitrant disabling psoriasis and other autoimmune diseases was accepted by NMPA. In January 2022, the product's new drug application was granted priority review designation by the Center for Drug Evaluation (CDE) of NMPA, which is expected to accelerate its registration process in China. The product is a methotrexate (MTX) injection with multiple strengths in a small volume, expected to meet the basic treatment needs of psoriasis patients.

- expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China (approved for marketing in Europe)

In August 2021, the clinical trial application of Methotrexate Injection, Pre-filled Syringe for the treatment of adult rheumatoid arthritis (RA) was approved by NMPA. MTX is internationally well accepted as the first-line gold standard medicine and anchored agent for the systemic treatment for RA, however, no MTX pre-filled injection for the treatment of RA has been approved for marketing in China. The product shows lower adverse effect profile (compared with oral application of MTX), good bioavailability and clinical efficacious response, and convenience of dosage management and administration, achieving a great balance of efficacy, safety, tolerability and compliance.

Cyclosporine Eye Drops 0.09% - a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology (approved for marketing in the U.S., Australia and Canada)

In May 2021, the Group completed the enrollment of all the 384 subjects in the phase III bridging trial of Cyclosporine Eye Drops 0.09% in China, which only took around 4 months (including the Chinese Spring Festival) and again convincingly demonstrated the Group's efficient clinical execution. In May, the Group was informed by its partner, Sun Pharmaceutical Industries Ltd. ("Sun Pharma"), that Sun Pharma would voluntarily recall a batch of Cyclosporine Eye Drops 0.09% in the U.S. due to anomalies in the particulate matter and content. As the same batch of the product was used in the bridging trial in China, the Group decided to voluntarily suspend the phase III bridging trial in China. The new phase III bridging trial in China will be conducted immediately when the new product batch for the clinical trial that meets our quality requirement is received. The product is a nanotechnology-enabled formulation in clear solution, developed for increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye). It uses a unique tiny structure called "micelle" as the vehicle to allow for greater tissue penetration and gentle side effect profile in a high concentration.

Desidustat Tablets - an oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI) (approved for marketing in India)

In January 2021, the clinical trial application of Desidustat Tablets was approved by NMPA. Afterwards, the Group completed the phase I PK study in June, and completed the first subject dosing of China phase III bridging trial of the product in January 2022. The product is a novel oral HIF-PHI, developed to treat anemia in chronic kidney disease patients (including hemodialysis and non-dialysis patients).

Methylthioninium Chloride Enteric-coated Sustained-release Tablets - an oral methylene blue sustained-release formulation that enhances diagnosis sensitivity in detecting cancerous/precancerous lesions during colonoscopy (approved for marketing in Europe)

In August 2021, the application of phase III clinical trial for bridging in China of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was approved by NMPA, and then the first subject was dosed in January 2022. The product is a novel oral sustained-release formulation for diagnosis, which can help to improve the detection rate of colorectal cancer/precancerous lesions by enhancing visualization of the colorectal lesions in adult patients undergoing screening or surveillance colonoscopy.

3. Innovative Pipeline

Launched Overseas or Under Marketing Application Review

Product	Rights Authorized Region	Indication	Clinical Trial Approval	Clinical Trial for Registration	Marketing Application	Marketed	Major Marketed Regions			
							CN	US	EU	JP
Diazepam Nasal Spray		Intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy six years of age and older						✓		
Tildrakizumab Solution for Injection (Biological Agent)		Moderate-to-severe plaque psoriasis						✓	✓	✓
Methotrexate Injection, Pre-filled Syringe		Severe recalcitrant disabling psoriasis and other autoimmune diseases							✓	
		Adult rheumatoid arthritis							✓	
Cyclosporine Eye Drops 0.09%		Increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)						✓		
Methylthioninium Chloride Enteric-coated Sustained-release Tablets		An diagnostic agent to enhance visualisation of colorectal lesions in adult patients undergoing screening or surveillance colonoscopy							✓	
Desidustat Tablets		Anemia in patients with chronic kidney disease								
Latanoprost Eye Drops		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						✓		
PLENITY		An aid for weight management in adults with a BMI of 25-40 kg/m^2 when used in conjunction with diet and exercise						✓		
Levetiracetam XR Tablet		Adjunctive therapy for the treatment of partial-onset seizures						✓		
BCG for Intravesical Instillation (Biological Agent)	*	Non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence							✓	
PoNS		Chronic balance deficit due to mild-to-moderate traumatic brain injury								
Paclitaxel Injection Concentrate for Suspension		Metastatic breast cancer, locally advanced/ metastatic non-small cell lung cancer, metastatic adenocarcinoma of the pancreas								

China Overseas Designated Asian Regions Mainland China, Hong Kong, Macao and Taiwan

*Taiwan is not included in the rights authorized region of BCG for Intravesical Instillation

Under R&D Stages

Product	Rights Authorized Region	Indication	Pre-clinical	Clinical Trial Approval	Phase I	Phase II	Phase III	Marketing Application
SDN-037		Eye pain and inflammation after cataract surgery						
PDP-716		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						
CF101		Psoriasis						
ACT017 (Biological Agent)		Acute phase of ischemic stroke						
CF102		Hepatocellular carcinoma						
		Non-alcoholic fatty liver disease / non-alcoholic steatohepatitis						
XF-73		Prevention of post-surgical staphylococcal infections						
		Infectious diseases						
BB2603		Onychomycosis and tinea pedis						
VXM01 (Biological Agent)		Recurrent glioblastoma						
Fully Human Anti-SA Hlα Antibody (Biological Agent)		Intended to be used to prevent disease progression in high-risk groups for SA colonization and treat pneumonia, bacteremia, and toxic shock caused by SA, especially MRSA						
Fully Human Anti-HCMV Antibody (Biological Agent)		Intended to be used for prophylaxis of HCMV infection						
Fully Human Anti-COVID-19 Antibody (Biological Agent)		Intended to be used for prevention and treatment of COVID-19 infection						
Fully Human Anti-rabies Virus Antibody (Biological Agent)		Intended to be used for rapid passive immunization of patients bitten and scratched by rabies infected dogs or other animals susceptible to rabies infection						
CMS-D001		Autoimmune diseases						
CMS-D002		Gynecological diseases						
CMS-D003		Cardio-cerebrovascular diseases						
CMS-D004		Central nervous system diseases						

China Overseas Global Designated Asian Regions Mainland China, Hong Kong, Macao and Taiwan

III. Competitive Generics

The Group selectively deployed generics with promising market potential and good competitive landscape, expecting to contribute additional growth to the Group's performance via participating in the centralized procurement.

The main competitive generics of the Group are as follows:

Category	Product	Indication	Registration Progress in China	2021 IQVIA Data of Products with the Same Active Pharmaceutical Ingredients (API)	Number of the Same API Products Passing Consistency Evaluation*
Complex Generic	Doxorubicin Hydrochloride Liposome Injection	Anti-tumor	Under ANDA Review	About RMB3.4 billion	1
Competitive Generics	Paliperidone Extended-release Tablets#	Schizophrenia	Obtained Marketing Approval	About RMB0.4 billion	1
	Tacrolimus Capsules	Liver or renal transplant rejection	Under ANDA Review	About RMB4.2 billion	0
	Lansoprazole Enteric Capsules	Anti-gastrointestinal ulcer	Under ANDA Review	About RMB1.6 billion	0
	Calcitriol Soft Capsules	Postmenopausal osteoporosis; chronic renal failure; hypoparathyroidism; vitamin-D resistant rickets	Under ANDA Review	About RMB2.1 billion	2
	Mycophenolate Sodium Enteric-coated Tablets	Immune rejection in renal transplant	Under ANDA Review	About RMB0.6 billion	1
	Oxcarbazepine Tablets	Epilepsy	Under ANDA Review	About RMB0.6 billion	0
	Tetrabenazine Tablets	Huntington's disease	Under ANDA Review	No relevant data	0

* As at 31 December 2021

In March 2022, Paliperidone Extended-release Tablets obtained the marketing approval in China.

IV. Dermatology and Medical Aesthetic Business

Basing on years of resource accumulation in the dermatology field, including the dermatologists, channel networks and promotional teams, the Group split the dermatology specialty business and successfully incubated the independent dermatology and medical aesthetic operation business, the "CMS Aesthetics". With multiple mergers and acquisitions of professional medical aesthetic companies and multi-dimensional introduction of dermatology and medical aesthetic products, "CMS Aesthetics" has established an operation system consisting of the dermatology prescription medicine business unit and the medical aesthetic business unit, and has become a professional dermatology and medical aesthetic company with a focus on dermatology prescription medicine, light medical aesthetic products, energy-based medical aesthetic devices and dermatology grade skincare products, to meet the increasingly diversified and personalized beauty demands of Chinese consumers.

During the Reporting Period, the business infrastructure of "CMS Aesthetics" was well established, and its product matrix and channel coverage were rapidly expanded. A core management team has been constructed through internal promotions and recruitment of high-level professionals, and the staff size has reached around 600 people, while an efficient and flexible incentive scheme has been set up, to accelerate its vision of becoming "the largest and most professional company in dermatology and medical aesthetic health management in China".

1. Acquiring Luqa, a Dermatology and Medical Aesthetic Specialty Company, to Enrich the Dermatological Portfolio and Enter the Medical Aesthetic Field

In February 2021, the Group acquired all the shares of Luqa Ventures Co., Limited ("Luqa"), a dermatology and medical aesthetic specialty company, to enrich the dermatological portfolio and enter the medical aesthetic field. Luqa has a diversified product portfolio including prescription medical aesthetic products, medical aesthetic products and dermatology grade skincare products that can provide clients/consumers with safe and effective solutions for skin problems. After the acquisition, the Group rapidly integrated businesses and teams of both parties, which has laid the foundation for the rapid development of the dermatology and medical aesthetic business.

2. Acquiring Carnation, a R&D and Manufacturing Platform of Medical Aesthetic Devices with Focused Ultrasound Technology

In May 2021, the Group entered into an equity transfer agreement and a capital increase agreement with Shanghai A&S Science Technology Development Co., Ltd. and Shanghai Carnation Medical Technology Co., Ltd. ("Carnation"). As at 31 December 2021, the Group held approximately 64.81% of the equity interests of Carnation. Carnation's focused ultrasound technology is one of the innovative non-invasive body shaping technologies and has the advantages of being penetrable, focusing, non-invasive, non-destructive channels, and acting on targets at different depths, etc. Based on this technology, Carnation independently developed products including the FUBA5200 Focused Ultrasound Body Contouring System. In addition to body shaping, this technology could also be applied to the development of products in facial shaping, facial wrinkle removal, skin tightening, freckles removal, scar removal, transdermal absorption and other fields. As the Group's R&D platform for energy-based medical aesthetic devices, Carnation will continue to provide cutting-edge medical aesthetic devices using focused ultrasound technology for the Group.

FUBA5200 Focused Ultrasound Body Contouring System - a non-invasive body shaping and fat reduction device using focused ultrasound technology with independent intellectual property rights

During the Reporting Period, the Group initiated the pivotal clinical trial related work of FUBA5200 Focused Ultrasound Body Contouring System in China. Developed for non-invasive ultrasonic fat reduction, the product focuses ultrasound energy on the subcutaneous fat layer, uses the mechanical and cavitation effects of ultrasound to crush the target fat cells and then dissolve them, thereby eliminating excess fat on the body surface. After multiple iterations, the product has been improved in aspects of transducers, power sources and others, which can improve the treatment effect and reduce the entire treatment time and cycle. It is expected to provide consumers with a safe, effective and convenient choice for non-invasive body shaping and fat reduction.

3. Acquiring Xuli Medical, a Medical Aesthetic Specialty Company, to Expand the Light Medical Aesthetic Products, Teams and Related Channels, Improving the Comprehensive Competitiveness

In December 2021, the Group acquired all the shares of Shanghai Xuli Medical Devices Company Limited ("Xuli Medical"), which focuses on medical aesthetic products and is well established in the middle and upper stream of the medical aesthetic industry. Xuli Medical is the sole distributor of MONALISA Lidocaine Filler (Vmonalisa), a South Korea imported modified sodium hyaluronate filler for injection, in Mainland China. The acquisition further expanded the Group's medical aesthetic product matrix, and brought it a professional medical aesthetic team with rich experience in medical aesthetic marketing and sales and excelling at innovation of marketing concept, as well as extensive medical aesthetic channel resources covering Mainland China, which has effectively improved the overall competitiveness of the Group in the medical aesthetic field.

Vmonalisa – a painless, fashionable, and accessible luxury HA filler (containing Lidocaine) from South Korea, featured with high safety, natural effect and good cost-effectiveness (approved for marketing in Europe, South Korea and other regions)

Vmonalisa, a "painless" medium-to-macro-particle hyaluronic acid (HA) injection filling product containing Lidocaine, is the fourth imported South Korean HA filler approved as a Class III medical device in China and the only South Korean HA filler used in Seoul National University Hospital. Adopting Hy-BRID crosslinking technology which can minimize the crosslinking agent residue, the product has the advantages of high safety, good viscoelasticity and natural effect, and its duration period can reach 6 to 12 months (it may differ among individual consumers), providing a cost-effective and accessible luxury South Korean HA product for Chinese beauty-loving people.

4. Reaching an Exclusive Collaboration Agreement with OVMEDI for the Embedding Thread Product to Meet the Diversified Needs of Chinese Beauty-loving People

In December 2021, the Group signed a collaboration agreement with OVMEDI Co., LTD. ("OVMEDI"), a medical aesthetic specialty company of South Korea, for Omega VL polydioxanone (PDO) embedding thread (the "Thread Carving Product"), and gained the exclusive rights to market, sell, distribute and commercialize the product in Mainland China, Hong Kong, Macao and Taiwan. The agreement is valid for thirteen years, and upon the expiration, it may be automatically renewed every year as per certain conditions agreed. The collaboration has filled the blank of embedding thread product of the Group and made its medical aesthetic product matrix more diverse and multi-dimensional.

Omega VL Thread Carving Product – one of the top three brands in South Korea with complete specifications and excellent workmanship (approved for marketing in the U.S. and South Korea)

Omega VL Thread Carving Product is made of PDO, which has high biocompatibility and is 100% degradable, and is used for facial and body thread embedding with the effects of lifting and firming. Produced by internationally renowned manufacturers, the raw materials of the product are featured with high quality. The product has been approved for marketing overseas for many years with certain awareness and good reputation. The product has excellent workmanship and complete specifications including smooth line, serrated line (small V line), anchorage line (large V line) and special specifications. It could synergize with the Group's other dermatology and medical aesthetic products to meet the diversified needs of Chinese beauty-loving people.

V. Ophthalmology Business

The Group has been deeply engaged in the ophthalmology business for years and has developed a professional ophthalmology product portfolio, including the marketed product -- Augentropfen Stulln Mono Eye Drops (used for senile macular degeneration and all forms of asthenopia), and the innovative pipeline products -- Cyclosporine Eye Drops 0.09% (developed for increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)), Latanoprost Eye Drops (developed for reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension), SDN-037 (developed for eye pain and inflammation after cataract surgery), PDP-716 (developed for reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension). The Group has also accumulated extensive ophthalmologic experts, ophthalmologist and network resources (including hospitals and medical institutions, retail pharmacies, e-commerce channels, etc.). In order to make effective use of its advantageous resources and further improve the operation efficiency in the ophthalmology field, the Group promoted the independent operation of ophthalmology line.

VI. Healthcare Business

The "consumption upgrade" and "pandemic era" have had a profound impact on people's lifestyles and consumption behaviors. Under the new consumption normal, factors such as health, safety, convenience and brand reputation are playing a more critical role than ever before. With an insight into the new trend in the consumer market, the Group leveraged its extensive channel resources overseas, mature product evaluation system and efficient global supply chain system, to stringently select functional and quality healthcare products with unique ingredients globally according to medical concept and high standards, guarding the health of Chinese consumers through cross-border e-commerce business. As at 31 December 2021, the Group has collaborated with 17 well-known European and American brands on more than a hundred products, 112 of which have been launched in "CMS Health Overseas Flagship Store" or "CMS Overseas Flagship Store" on the three mainstream cross-border e-commerce platforms, JD Worldwide, Youzan Mall and Tmall International. The products sold have covered nine major categories including weight management, kid's nutrition, hair care & loss prevention, sexual health, home care, relaxation & sleep, beauty & personal care, fertility & pregnancy, and nutritional supplement.

During the Reporting Period, while continuously expanding the quality healthcare product matrix, the Group actively explored feasible business models, capitalized on new media in brand building, to build "trending products" that meet consumers' demands, making effort to become "the most professional healthcare brands operation company in China".

VII. Commercialization System

As China's healthcare system reform has further catalyzed the refinement of the industrial value chain, and a large number of innovative medicines have gradually entered the commercialization cycle, the long-term value of professional, compliant commercialization platforms with scales becomes increasingly prominent for enterprise to maintain its competitive advantages and sustainable profits. With years of experience in market access, branding, academic promotion, retail management, new media marketing, government affairs, distributor cooperation, etc., the Group has established a professional, mature, compliant, and omni-channel commercialization system, and successfully created decent brand images and leading market positions for the Group's products in China, which laid a solid "monetization" foundation for the innovative products to be launched.

The Group adheres to the compliance-first principle in its commercialization system, and has constantly improved its compliance management throughout employees' behavior management, training and performance assessment. During the Reporting Period, while further refining the academic promotion based on products' core academic advantages, the Group proactively organized and participated in various levels of online and offline academic conferences, made efforts to build a multi-level expert network, and continued to increase hospital channels coverage and efficiency enhancement. Besides, leveraging diversified new media promotions as well as offline events, the Group expanded brand influences, and increased traffic and penetration in the chain-pharmacies-based retail market. Meanwhile, the Group utilized its constantly optimized digital tools to facilitate business control, and comprehensively enhanced the marketing effectiveness under a refined and compliant management framework, which continuously enhanced confidence in its sales capabilities and business models.

Since the independent operation of the dermatology and medical aesthetic business in early 2021, the Group has organically integrated internal and external advanced resources, to accelerate the establishment of a commercialization system for the dermatology and medical aesthetic business that can achieve resource sharing and complementary. The Group has extensive dermatology expert networks and academic platform resources, and excels at tailoring brand strategy and interpreting academic efficacy from a professional perspective. Its advantages of the stringent and compliant promotion and management models have been highlighted under the trend of standardization in the medical aesthetic industry. In addition, the Group has quickly consolidated its marketing teams and channel resources in the medical aesthetic field via a series of acquisitions; fully capitalized on new media promotions, training and education of doctors, to focus on creating innovative marketing concept for medical aesthetic products; and deeply participated in the multi-channel customers management, to strengthen products' brand communication and influence, thereby reinforcing the foundation for accelerating growth of products.

As at 31 December 2021, the Group had about 4,000 professional marketing and promotion related personnel (including the medical aesthetic marketing and promotion team); its commercialization network covered about 50,000 hospitals and medical institutions, and more than 200 thousand drugstores.

VIII. Marketed Products

The Group's major marketed products have covered the cardio-cerebrovascular, digestion, ophthalmology and dermatology fields. The information summary of major products is as follows:

Product Line	Product	Indication/Function	Product Advantage
Cardio-cerebrovascular Line	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	Calcium Channel Blocker (CCB) medicine suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)	Acute decompensated heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) medicine available in Chinese market as at 31 December 2021
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Ranking the first in the market share of antidepressant medicines in China according to 2021 IQVIA data
Digestion Line	Ursofalk (Ursodeoxycholic Acid Capsules)	Cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis	Stably ranking the first in sales among products in Chinese cholagogue market according to 2021 IQVIA data
	Salofalk (Mesalazine)	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	Ranking the first in the market share of aminosalicylic acid, a first-line treatment for inflammatory bowel disease, in China according to 2021 IQVIA data
	Bioflor (Saccharomyces Boulardii Sachets)	Diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance	Probiotics preparations with abundant medical evidence and high-level recommendations from authoritative domestic and overseas guidelines
	Combizym (Oryz-aspergillus Enzyme and Pancreatin Tablets)	Dyspepsia caused by a decrease in digestive enzymes	Effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency
Ophthalmology Line	Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)	Senile macular degeneration and all forms of asthenopia	The representative medicine for the treatment of asthenopia and the only eye drops in Chinese market for the treatment of macular degeneration as at 31 December 2021

Dermatology Line	Hirudoid (Mucopolysaccharide Polysulfate Cream)	Blunt traumata with and without hematomas, and superficial phlebitis that cannot be treated by compression	Repair agent for skin barrier with multiple functions
	Aethoxysklerol (Polidocanol Injection)	Different specifications for sclerotherapy of different varicose veins, including spider veins, central veins of spider veins, and medium to large varicose veins	The international brand for the treatment of sclerotherapy of varicose veins with years of clinical application
Medical Aesthetic Product	Vmonalisa (Modified sodium hyaluronate filler for injection)	Used for mid to deep dermal implantation for the correction of moderate to severe nasolabial folds	Painless, fashionable and accessible luxury medium-to-macro-particle HA filler (containing Lidocaine) from South Korea, featured with high safety, natural effect and good cost-effectiveness
	Stratamark* (Self-drying Silicone Scar Therapy Gels)	Approved in China for prevention and treatment of hypertrophic scars; approved in the U.S., Switzerland, Australia, etc. for prevention and treatment of striae distensae (stretch marks)	Applied once daily, clinically proven topical silicone gel with efficacy and safety to prevent and treat stretch mark
	Strataderm (Self-drying Silicone Scar Therapy Gels)	Prevention and improvement of hypertrophic scars	An effective silicone gel indicated for prevention of hyperplasia and improvement of new and old scars for a wide population
	Mesoestetic-Mesohyal Series (including 5 products)	Skin firming, moisturizing, elasticity increasing, etc.	Matching therapies to provide customized medical aesthetic solutions
	Neauvia Hyaluronic Acid Series (including 4 products)	Superficial and deep skin filling, long-term moisturizing	Crossing with polyethylene glycol based on a unique cross linker technology SMART, the product has excellent rheology, high biocompatibility and good integrity
Dermatology Grade Skincare Product	Atopic Piel Series (including 5 products)	Skin nourishing, moisturizing and dryness reliving	A combination of washing and moisturizing to repair the damaged skin barrier, relieve itching of sensitive skin

*In July 2021, Stratamark (the Australia-approved version) has been sold on the Group's cross-border e-commerce platform.

During the Reporting Period, revenues by product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB3,758.1 million, an increase of 19.3% compared with the same period last year. In the case that all medicines were directly sold by the Group, the revenue of products under cardio-cerebrovascular line would increase by 25.1% to RMB4,854.3 million compared with the same period last year, accounting for 52.6% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of products under digestion line increased by 24.7% to RMB3,228.7 million compared with the same period last year, accounting for 35.0% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under ophthalmology line increased by 28.7% to RMB385.8 million, compared with the same period last year, accounting for 4.2% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under dermatology line increased by 42.5% to RMB312.8 million, compared with the same period last year, accounting for 3.4% of the Group's revenue in the case that all medicines were directly sold by the Group.
- Other products recorded revenue of RMB651.8 million, a decrease of 5.1% compared with the same period last year. In case that all medicines were directly sold by the Group, the revenue would increase by 9.9% to RMB448.5 million compared with the same period last year, accounting for 4.9% of the Group's revenue in the case that all medicines were directly sold by the Group.

Impacts of Significant Industrial Policies

In 2021, the National Volume Based Procurement ("National VBP") remained the most influential policy for pharmaceutical companies. As at 31 December 2021, none of the chemical names of major products sold by the Group was included in the National VBP catalog, thus the policy has not negatively affected the operation and profitability of the Group during the Reporting Period. In January 2022, one of the Group's marketed products, Deanxit (Flupentixol and Melitracen Tablets), was included in the seventh National VBP catalog. Manufactured by H. Lundbeck A/S of Denmark for the treatment of mild-to-moderate depression, anxiety and psychosomatic affections, Deanxit is an oral, original medicine for chronic disease with relatively high patients' stickiness. Benefiting from its competitiveness including the relatively strong brand image, high market recognition and high retail sales contribution, the inclusion of the product in the seventh batch of the National VBP is not expected to produce material negative impact on the Group's future operation and profitability. The Group will continue to pay close attention to the policy trend of the National VBP and the competitive landscape in the market, enhance the products' brand building and retail coverage, continuously expand its innovative pipeline, and accelerate the clinical development and commercialization of innovative medicines in China. Meanwhile, the Group will promote its diversified development, and accelerate the incubation and development of new businesses, such as the dermatology and medical aesthetic business, ophthalmology business and healthcare business that are immune to the National VBP, so as to hedge against the potential impact of the Group's marketed products that may be included into the National VBP in the future, and further ensure the sustainable business growth of the Group.

Future Development

With the deepening healthcare system reform and the industrial structure adjustment in pharmaceutical innovation, Chinese biopharmaceutical industry is ushering in an era of quality development. Meanwhile, with continuous improvement in social economy, a new consumption normal toward health and beauty has rapidly emerged. The Group's businesses, including pharmaceutical business, dermatology and medical aesthetic business, ophthalmology business, and healthcare business, are moving forward firmly with clear development strategies to meet the challenges and opportunities.

The Group is committed to safeguarding the health of Chinese citizens with innovative medicines that are reliable, accessible and affordable. While maintaining stable cash contribution from marketed products, the Group will fully utilize its management and control capabilities in key stages of the entire life-cycle of pharmaceutical products, and continuously pay close attention to cutting-edge biotech platforms in its advantageous therapeutic fields, novel targets and innovative solutions of popular targets, with an open mind, to promote multi-dimensional innovation collaborations globally to invest and deploy differentiated innovative products extensively. At the same time, the Group will constantly optimize its commercialization system under the strong compliance management, and actively expand its multi-dimensional networks and expert resources. Capitalizing on its mature and professional teams covering each key stage of the entire product life-cycle, the Group will consistently upgrade its open incubation platform of innovation that effectively connects pharmaceutical innovation and commercialization to accelerate the clinical development and commercialization of innovative medicines in China

For its dermatology and medical aesthetic business featured with relatively strong consumption attributes, the Group will continuously enrich its product portfolio to build a three-dimensional product matrix including comprehensive dermatology medicines, light medical aesthetic products, energy-based medical aesthetic devices and dermatology grade skincare products. At the same time, by fully leveraging its existing professional dermatology networks, as well as the mature medical aesthetic teams and sales channel resources, the Group will focus on product brand building, and strive to make "CMS Aesthetics" the largest and most professional company in dermatology and medical aesthetic health management in China.

For its ophthalmology business, while expanding the business scale with the independent operation of the specialty line, the Group will continue to strengthen its commercialization capabilities for its ophthalmic medicine and device portfolio, and enrich the urgently needed clinical solutions in the ophthalmology specialty field, so as to build "the leading ophthalmology pharmaceutical and device company in China".

For its healthcare business, the Group will concentrate on creation of trending products on e-commerce platforms, and enhance the brand and reputation building via the multimedia promotion that can precisely reach consumers in multiple scenarios, aiming to become "the most professional healthcare brands operation company in China".

Step by step, CMS is entering its 30th anniversary since its foundation. A new journey is about to begin. The Group will always adhere to its patient-centered principle, live up to its founding mission with boundless endeavors and social responsibilities, and comprehensively improve its core competencies in innovation investment and incubation, product development, commercialization, etc., to cope with the evolving industrial ecology with its quality innovation development, and develop win-win and open collaborations with its stakeholders.

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 20.0% from RMB6,946.0 million for the year ended 31 December 2020 to RMB8,337.2 million for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, turnover increased by 24.8% to RMB9,230.2 million for the year ended 31 December 2021 from RMB7,395.2 million for the year ended 31 December 2020, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 21.7% from RMB5,134.2 million for the year ended 31 December 2020 to RMB6,246.9 million for the year ended 31 December 2021; in the case that all medicines were directly sold by the Group, gross profit increased by 24.7% to RMB6,039.2 million for the year ended 31 December 2021 from RMB4,842.7 million for the year ended 31 December 2020, primarily reflecting an increase in turnover. Gross profit margin increased by 1.0 percentage point to 74.9% for the year ended 31 December 2021 from 73.9% for the year ended 31 December 2020; in the case that all medicines were directly sold by the Group, gross profit margin decreased by 0.1 percentage point to 65.4% for the year ended 31 December 2021 from 65.5% for the year ended 31 December 2020, primarily reflecting a change in sales weight of products.

Selling Expenses

Selling expenses increased by 23.7% from RMB2,053.2 million for the year ended 31 December 2020 to RMB2,540.1 million for the year ended 31 December 2021; selling expenses as a percentage of turnover increased by 0.9 percentage point to 30.5% for the year ended 31 December 2021 from 29.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, selling expenses as a percentage of turnover increased by 1.5 percentage points to 25.3% for the year ended 31 December 2021 from 23.8% for the year ended 31 December 2020, mainly due to relatively more resources injected to new business for its development, and relatively less academic promotion activities through offline mode for last year caused by the epidemic disease.

Administrative Expenses

Administrative expenses increased by 75.6% from RMB251.2 million for the year ended 31 December 2020 to RMB441.0 million for the year ended 31 December 2021; administrative expenses as a percentage of turnover increased by 1.7 percentage points to 5.3% for the year ended 31 December 2021 from 3.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, administrative expenses as a percentage of turnover increased by 1.4 percentage points to 4.8% for the year ended 31 December 2021 from 3.4% for the year ended 31 December 2020, primarily reflecting an increase in maintenance expenses required by the development of new business.

Research and Development Expenditures

The Group's research and development expenditures included investments for the continuous expansion of innovative product pipelines, expenditures on development, registration and clinical trial of new products, salaries and related expenses of staff who were engaged in the aforesaid affairs. Research and development expenditures included the expensed research and development expenditures (i.e. research and development expenses) and capital payments (including payments for acquisition of equity investments in research and development companies and payment for acquisition and development of product rights).

Total research and development expenditures increased by 40.2% from RMB527.3 million for the year ended 31 December 2020 to RMB739.3 million for the year ended 31 December 2021. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2021 was 8.9%, representing an increase of 1.3 percentage points from 7.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, total research and development expenditures as a percentage of turnover increased by 0.9 percentage point to 8.0% for the year ended 31 December 2021 from 7.1% for the year ended 31 December 2020, primarily reflecting an increase in investment in innovative product pipelines and an increase in development activities on clinical trial.

Research and development expenses increased by 72.5% from RMB66.5 million for the year ended 31 December 2020 to RMB114.8 million for the year ended 31 December 2021. Research and development expenses as a percentage of turnover for the year ended 31 December 2021 was 1.4%, representing an increase of 0.4 percentage point from 1.0% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, research and development expenses as a percentage of turnover increased by 0.3 percentage point to 1.2% for the year ended 31 December 2021 from 0.9% for the year ended 31 December 2020.

Capital payments (set out in the table below) increased by 35.5% from RMB460.8 million for the year ended 31 December 2020 to RMB624.5 million for the year ended 31 December 2021. Such capital payments as a percentage of turnover for the year ended 31 December 2021 was 7.5%, representing an increase of 0.9 percentage point from 6.6% for the year ended 31 December 2020. In the case that all medicines were directly sold by the Group, such capital payments as a percentage of turnover increased by 0.6 percentage point to 6.8% for the year ended 31 December 2021 from 6.2% for the year ended 31 December 2020.

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Payment for acquisition of equity investments in research and development companies	463,028	156,923
Payment for acquisition and development of product rights	161,494	303,863
	624,522	460,786

Other Income

Other income increased by 36.1% from RMB108.0 million for the year ended 31 December 2020 to RMB146.9 million for the year ended 31 December 2021, mainly due to increases in interest income and government subsidies.

Other Gains and Losses

Other gains and losses increased by 161.5% from a loss of RMB181.4 million for the year ended 31 December 2020 to a gain of RMB111.5 million for the year ended 31 December 2021, mainly due to an increase in fair value gain on equity investments for the Reporting Period and more impairment losses on goodwill and intangible assets for last year.

Share of Result of Associates

Share of result of associates decreased by 51.0% from RMB153.8 million for the year ended 31 December 2020 to RMB75.4 million for year ended 31 December 2021, mainly reflecting a decrease in profit of the associate Tibet Pharmaceutical resulting from an impairment provision for its intangible assets.

Finance Costs

Finance costs increased by 2.7% from RMB27.5 million for the year ended 31 December 2020 to RMB28.3 million for the year ended 31 December 2021, mainly due to an increase in interest-bearing liabilities.

Income Tax Expense

Income tax expense increased by 65.6% from RMB260.4 million for the year ended 31 December 2020 to RMB431.3 million for the year ended 31 December 2021, mainly reflecting an increase in profit of the Group and an impact of the reversal of income tax overprovision for last year.

Profit for the Year

Profit for the year increased by 18.4% from RMB2,555.7 million for the year ended 31 December 2020 to RMB3,025.3 million for the year ended 31 December 2021, mainly due to the continuous growth in turnover.

Inventories

Inventories increased by 24.0% from RMB381.2 million as at 31 December 2020 to RMB472.6 million as at 31 December 2021. Average inventory turnover days decreased from 79 days for the year ended 31 December 2020 to 75 days for the year ended 31 December 2021, mainly reflecting the volatility of the Group's inventories level.

Trade Receivables

Trade receivables increased by 33.2% from RMB1,047.9 million as at 31 December 2020 to RMB1,395.8 million as at 31 December 2021, primarily reflecting an increase in the Group's turnover. Average trade receivables turnover days increased to 65 days for the year ended 31 December 2021 from 64 days for the year ended 31 December 2020, mainly due to the effect of acquisition of a subsidiary.

Trade Payables

Trade payables increased by 8.2% from RMB134.8 million as at 31 December 2020 to RMB145.9 million as at 31 December 2021. Average trade payables turnover days increased to 25 days for the year ended 31 December 2021 from 18 days for the year ended 31 December 2020, mainly reflecting the difference in time points of inventory purchases.

Liquidity and Financial Resources

As at 31 December 2021, the Group's bank balances and cash amounted to RMB3,385.7 million while readily realizable bank acceptance bills amounted to RMB453.4 million. As at 31 December 2020, the bank balances and cash amounted to RMB2,668.4 million while readily realizable bank acceptance bills amounted to RMB446.0 million.

As at 31 December 2021, 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	
	2021	2020
	RMB'000	RMB'000
Net cash from operating activities	2,493,852	2,692,027
Net cash used in investing activities	(1,519,525)	(353,821)
Net cash used in financing activities	(258,392)	(1,034,556)
Net increase in cash and cash equivalent	715,935	1,303,650
Cash and cash equivalent at beginning of the year	2,668,426	1,365,008
Effect of foreign exchange rate changes	1,378	(232)
Cash and cash equivalent at end of the year	3,385,739	2,668,426

Net cash from operating activities

For the year ended 31 December 2021, the Group's net cash generated from operating activities was RMB2,493.9 million compared with RMB2,692.0 million for the year ended 31 December 2020, a decrease of 7.4% mainly due to an increase in working capital occupied.

Net cash used in investing activities

For the year ended 31 December 2021, the Group's net cash used in investing activities was RMB1,519.5 million compared with RMB353.8 million for the year ended 31 December 2020, an increase of 329.5% mainly due to an increase in investments concerned with innovative products and acquisition of subsidiaries.

Net cash used in financing activities

For the year ended 31 December 2021, the Group's net cash used in financing activities was RMB258.4 million compared with RMB1,034.6 million for the year ended 31 December 2020, a decrease of 75.0% mainly due to an increase in bank borrowings.

Net Current Assets

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current Assets		
Inventories	472,598	381,215
Financial assets at fair value through profit or loss	977,874	3,884
Trade receivables	1,395,789	1,047,948
Other receivables and prepayments	808,213	657,658
Tax recoverable	19,469	12,082
Derivative financial instruments	-	49
Amount due from an associate	320,036	207,271
Bank balances and cash	3,385,739	2,668,426
	7,379,718	4,978,533
Current Liabilities		
Trade payables	145,898	134,808
Other payables	483,649	484,476
Lease liabilities	16,922	7,266
Contract liabilities	23,715	14,406
Bank borrowings	1,103,760	10
Deferred consideration payables	2,000	2,929
Tax payable	305,310	268,068
	2,081,254	911,963
Net current assets	5,298,464	4,066,570

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	
	2021	2020
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	161,494	303,863
Purchase of property, plant and equipment	23,347	37,558
	184,841	341,421

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	
	2021	2020
	RMB'000	RMB'000
Interest bearing bank borrowings	1,677,573	587,251

The Group had bank borrowings of RMB1,677.6 million as at 31 December 2021 (31 December 2020: RMB587.3 million). The details of bank borrowings are set out in note 29 to the consolidated financial statements.

As said above, along with an increase in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, increased by 6.0 percentage points to 10.6% as at 31 December 2021 from 4.6% as at 31 December 2020.

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 2021, 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 movements of interest rate and foreign currencies market so as to mitigate the expected risk on interest rate and foreign currencies.

Pledge of Assets

As at 31 December 2021, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2021, the Group had no material contingent liabilities.

Acquisition of Subsidiaries

During the Reporting Period, in order to enrich the Group's existing product portfolio and enter into new business fields, the Group acquired two subsidiaries Luqa Ventures Co., Limited and Shanghai Carnation Medical Technology Co., Ltd., details of which are disclosed in note 42 to the consolidated financial statements.

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

(i)

On 26 March 2020, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with DBS Bank (China) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "Facility") 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 of directors (the "Board"), an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK" or the "Stock Exchange") (the "Listing Rules")) 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 2021, Mr. Lam Kong (directly and indirectly) held approximately 46.29% of the total issued ordinary share capital of the Company.

The loan under the Facility was paid off during the Reporting Period.

(ii)
On 27 March 2020, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as lender) in respect of a US$40,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilization date under the Facility Agreement. On 26 May 2021, CMS International Development and Management Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with DBS Bank (China) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 22 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 of directors (the "Board"), an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules")) 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 lender 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 2021, Mr. Lam Kong (directly and indirectly) held approximately 46.29% of the total issued ordinary share capital of the Company.

Dividend
For the year ended 31 December 2021, the Group paid an interim dividend for 2021 and a final dividend for 2020 of RMB652.5 million and RMB502.3 million, respectively. For the year ended 31 December 2020, the Group paid an interim dividend for 2020 and a final dividend for 2019 of RMB520.1 million and RMB314.0 million, respectively.

DIRECTORS

Executive Directors

Mr. Lam Kong, aged 57, 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 has clinician experience and deep understanding and knowledge of China's pharmaceutical industry, possessing unique insight and extensive experience in R&D, marketing, promotion, sales and other value-added services. He received his bachelor's degree in clinical medicine from Zhanjiang Medical College in 1986, which was renamed 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 42 of this Annual Report.

Mr. Chen Hongbing, aged 55, 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 business operation of the Group, including marketing, promotion, supply chain management, product manufacturing management and human resources management, etc. Mr. Chen possesses extensive experience in business operations of pharmaceutical companies and corporate management. Mr. Chen had acquired about 4 years' experience as a public hospital doctor with Nanjing Gulou Hospital from 1990 to 1994. He received his bachelor's degree in clinical medicine from Nanjing Medical College in 1990, which was renamed 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 42 of this Annual Report.

Ms. Chen Yanling (former Chinese name as 陳艷玲), aged 51, 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 finance, accounting, investor relations, government affairs and administration management. She holds an EMBA degree and is a senior accountant with extensive experience in financial management, fund raising, auditing and investor relations, etc. As at the end of the year 2021, Ms. Chen was awarded eight times the "Best CFO" by the Institutional Investor Magazine and twice the "Best CFO" in the Selection of the Best Listed Companies in Greater China held by Gelonghui. Ms. Chen is the chairman of the Environmental, Social and Governance Committee of the Company.

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 42 of this Annual Report.

Independent Non-Executive Directors

Mr. Leung Chong Shun, aged 56, 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, a member of the Nomination Committee and a member of the Environmental, Social and Governance Committee of the Company.

Ms. Luo Laura Ying (formerly known as Ying Luo), aged 56, was appointed as an independent non-executive Director on 31 March 2020. Ms. Luo has 26 years of investment experience. She currently works as a consultant to GL China Equity HK Management Limited and previously has worked for GL Capital Management Limited. Ms. Luo is an independent non-executive director of Central China New Life Limited (a company listed on the Stock Exchange with stock code: 9983). 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.

Mr. Fung Ching Simon, aged 53, was appointed as an independent non-executive Director on 6 October 2021. Mr. Fung has 10 years of experience in auditing, accounting and business advisory and has over 17 years of experience in managing finance and accounting functions, mergers and acquisitions, fund raising and investor relations for PRC companies listed in Hong Kong. Mr. Fung is currently serving as the chief financial officer of Chow Tai Fook Enterprises Limited. Mr. Fung worked in PricewaterhouseCoopers between 1994 and 2004, and he served as the chief financial officer and secretary to the board of directors of Baoye Group Company Limited (a company listed on the Stock Exchange with stock code: 02355) between 2004 and 2010. Mr. Fung served as the chief financial officer and company secretary of Greentown China Holdings Limited (a company listed on the Stock Exchange with stock code: 03900) between 2010 and 2019. Mr. Fung worked for Logan Group Company Limited (a company listed on the Stock Exchange with stock code: 03380) from January 2020 till March 2021 as chief financial officer. Mr. Fung worked for China Logistics Property Holdings Co., Limited (a company listed on the Stock Exchange with stock code: 01589) from June 2016 till February 2022 as an independent non-executive director. Mr. Fung is also an independent non-executive director of Hainan Meilan International Airport Company Limited (a company listed on the Stock Exchange with stock code: 00357) and a non-executive director of Baoye Group Company Limited (a company listed on the Stock Exchange with stock code: 02355).

Mr. Fung graduated from the Queensland University of Technology in Australia with a bachelor's degree, majoring in accountancy. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the CPA Australia. Mr. Fung is the chairman of the Audit Committee, a member of the Remuneration Committee, a member of the Nomination Committee and a member of the Social, Environmental and Governance Committee of the Company.

SENIOR MANAGEMENT

Dr. Peng Huaizheng, aged 60, is the Chief Business Officer of the Group. Dr. Peng was appointed as an independent non-executive Director of the Company for the period from 4 May 2010 to 9 October 2013 and has remained with the Group since then. Prior to joining the Group, he held the positions of partner, director or senior portfolio manager at several multinational financial corporations in the UK and Canada, mainly engaged in investments in the global life science field. Dr. Peng possesses over 16 years of investment experience. Dr. Peng obtained a bachelor's degree and a master's degree in clinical medicine from Hunan Medical College in 1984 and 1989 respectively, and his doctoral degree of philosophy in molecular pathology from University College London Medical School, UK in 1998. Prior to entering into the financial investment and pharmaceutical industries, Dr. Peng was a clinical instructor of histopathology at the University College London Medical School.

Mr. Jiang Fei, aged 45, is the Chief Investment Officer (Greater China) of the Group. Mr. Jiang joined the Group in January 2022. Prior to joining the Group, Mr. Jiang was engaged in R&D and business expansion in domestic pharmaceutical companies, and held the positions including executive director and managing director at several venture capital firms and private equity funds. He possesses over 10 years of work experience in China's pharmaceutical industry and approximately 5 years of investment experience. Mr. Jiang obtained a bachelor's degree in chemical engineering from East China University of Science and Technology in 1998 and his doctoral degree of philosophy in chemical engineering from Syracuse University, U.S. in 2006.

Mr. James Stearns, aged 42, is the Chief Investment Officer (Europe and America) of the Group. Mr. Stearns joined the Group in April 2021. Prior to joining the Group, he was a director of a well-known investment bank and the investment director of an independent private equity firm, possessing over 10 years of experience in investment and finance in Europe and America's pharmaceutical industries. Mr. Stearns obtained a bachelor's degree in economics and accounting from University of Bristol in 2000.

Mr. Jiang Qingfu, aged 46, is the General Manager of Cardio-cerebrovascular/Digestion Business Division of the Group. Mr. Jiang joined the Group in 1999 after receiving his bachelor's degree from college and remained with the Group since then. Mr. Jiang was promoted to managerial positions rapidly after training at junior positions, having made outstanding sales contribution during the period. He possesses over 15 years of sales and marketing management experience. Mr. Jiang obtained a bachelor's degree in clinical medicine from Anhui Medical University in 1999.

Mr. Huang Anjun, aged 45, is the General Manager of Dermatology and Medical Aesthetic Business Division of the Group. Mr. Huang joined the Group in 2005 after receiving his master's degree from college and remained with the Group since then. Mr. Huang has been engaged in promotion and marketing in the Group, possessing over 10 years of marketing, promotion and the related management experience. Prior to joining the Group, Mr. Huang had acquired about 3 years' experience as a doctor at a public hospital. Mr. Huang obtained a master's degree in pediatrics in traditional Chinese medicine from Shandong University of Traditional Chinese Medicine in 2005.

Ms. Wang Linlang, aged 44, is the General Manager of Ophthalmology Business Division of the Group. Ms. Wang joined the Group in 2004 after receiving her master's degree from college and remained with the Group since then. Ms. Wang has been engaged in marketing and promotion related work in the Group, possessing over 10 years of marketing, promotion and the related management experience. Ms. Wang obtained a bachelor's degree in preventive medicine and a master's degree in epidemiology and health statistics from West China Medical Center, Sichuan University in 2001 and 2004 respectively.

Mr. Ma Lieyi, aged 52, is the Director of the Business Operations Department of the Group. Mr. Ma joined the Group in 1995 and remained with the Group since then. Mr. Ma has been engaged in sales and marketing management in the Group, possessing over 15 years of sales and marketing management experience. Mr. Ma graduated from Shenzhen University in 1990, majoring in business administration.

Ms. Li Yufang, aged 43, is the Director of the Finance Department of the Group. Ms. Li joined the Group in 2003 and remained with the Group since then. Ms. Li was the Director of the Compliance Department of the Group. Ms. Li possesses over 10 years of finance, tax and pharmaceutical companies' compliance experience. Ms. Li obtained a bachelor's degree of management in electronic data processing accounting from Jilin University of Finance and Economics in 2001. She is a non-practicing member of Shenzhen Institute of Certified Public Accountants.

Company Secretary

Ms. Wu Sanyan, aged 40, is the Company Secretary and Director of the Legal Department of the Group. Ms. Wu joined the Group in 2009 and remained with the Group since then. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules), possessing over 10 years of legal and corporate governance experience. 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 2021.

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 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 133.

Business Review

Business review of the Group for the year ended 31 December 2021 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 2021 are set out in the consolidated statement of changes in equity on page 136 and note 34 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2021, the Company had distributable reserves of RMB4,428.9 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 15 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 RMB0.2269 (equivalent to HK$0.279) per Share for the year ended 31 December 2021 to shareholders whose names appear on the register of members of the Company after market closes on Wednesday, 27 April 2022. The register of members of the Company will be closed on Thursday, 28 April 2022. The final dividend will be paid to shareholders on about Friday, 6 May 2022 after the shareholders' approval at the annual general meeting scheduled for Friday, 22 April 2022 (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

For the year ended 31 December 2021, the Company repurchased an aggregate of 13,317,000 ordinary shares with a nominal value of US$0.005 each on the Stock Exchange at an aggregate consideration of HK$183,598,660. All of the purchased shares were cancelled before 31 December 2021. 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	
August 2021	2,190,000	15.62	14.60	32,748,420
September 2021	4,435,000	15.10	14.04	65,378,180
November 2021	6,692,000	13.18	12.48	85,472,060
Total	13,317,000	-	-	183,598,660

Save as disclosed above, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

Directors

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

Executive Directors:

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

Independent Non-Executive Directors:

Mr. WU Chi Keung (resigned on 6 October 2021)
Mr. LEUNG Chong Shun
Ms. LUO Laura Ying
Mr. FUNG Ching Simon (appointed on 6 October 2021)

Pursuant to Article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Mr. Fung Ching Simon was appointed by the Board on 6 October 2021 as an independent non-executive Director. Accordingly, Mr. Fung Ching Simon shall retire from his office at the AGM and, being eligible, will offer himself 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 and Mr. Chen Hongbing will retire from their offices at the AGM and, being eligible, offer themselves for re-election at the AGM.

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Mr. Lam Kong, Mr. Chen Hongbing and Mr. Fung Ching Simon. Details of these retiring Directors will be set out in the circular expected to be issued by the Company on 21 March 2022.

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

Dr. Peng Huaizheng, Mr. Jiang Fei, Mr. James Stearns, Mr. Jiang Qingfu, Mr. Huang Anjun, Ms. Wang Linlang, Mr. Ma Lieyi and Ms. Li Yufang were newly defined as members of the senior management of the Company by the Board of Directors of the Company in March 2022. The members of the senior management of the Company now comprise Dr. Peng Huaizheng, Mr. Jiang Fei, Mr. James Stearns, Mr. Jiang Qingfu, Mr. Huang Anjun, Ms. Wang Linlang, Mr. Ma Lieyi, Ms. Li Yufang and Ms. Wu Sanyan. The biographical details of the Directors and the senior management are set out on pages 34 to 37 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 contracts 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 2 employees participating in the CMS Key Employee Benefit Scheme. Details of the Employee Benefit Scheme are set out in note 41 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2021, none of the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries was a party.

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

As at 31 December 2021, 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 Directors	Name of Corporations	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	1,137,564,000 (L) (Note 2)	46.29%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.82%
		Interest in controlled corporation	50,225,000 (L) (Note 3)	2.04%
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

Saved as disclosed above, as at 31 December 2021, 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.

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 39 and 41 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 2021, the Group had 5,292 employees. To meet the need of talents development of the Group, The Group has actively carried forward organizational and relevant human resources reforms, assessed the performance of the employees regularly, speeded up the cultivation and recruitment of talents and adopted various measures to improve employees' work efficiency. 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, such as orientation programmes for new employees, regulation-related trainings and position skills trainings, to continuously enhance their knowledge, skills and team spirit.

Directors' and Senior Management's Emoluments

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

Particulars of the Directors' emoluments and the five highest paid individuals of the Group are set out in note 9 and note 10 to the consolidated financial statements, respectively.

For the year ended 31 December 2021, emoluments of Company Secretary Ms. Wu Sanyan was between HK$1,000,000 and HK$1,500,000.

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 constantly and strictly. The Group has established a sound quality management system for the production and operation of pharmaceuticals, and accepts continuous supervision and inspection by regulatory agencies to ensure compliance with current GMP and GSP standards. In the event that those subsidiaries fail to strictly comply with the requirements of GMP and/or GSP standards and are penalized by the regulatory authorities, 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 methods, the Group may suffer material 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 may therefore be 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's ability to sell products in the respective province. Moreover, the product price, our market share, revenue and profitability may be affected due to certain new methods 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 are not limited to the sufficiency of resources to acquire or discover more drug candidates, pre-clinical studies and clinical trial delays or failures, uncertainties brought about by the duration of the approval and regulatory approval process, and, if regulatory approval is obtained, whether the products can be promoted successfully and their acceptance level in the market. If the R&D of innovative patented products fails, the Group is unable to obtain regulatory approval, or market acceptance of our products is not promising, the Group's future development may be affected adversely.

There may be other principal risks and uncertainties that are not known to the Company or 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 2021, the percentage of sales to the Group's five largest customers was approximately 28.7% of the Group's total sales, and sales to the top customer accounted for approximately 12.6% of the total sales.

For the year ended 31 December 2021, the percentage of purchases from the Group's five largest suppliers was approximately 90.0% of the Group's total purchases, and purchase from the top supplier accounted for approximately 29.6% of the total purchases.

Except as disclosed in note 39 to the consolidated financial statement, none of the Group's directors, their close associates or shareholders had an interest in 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 49 to 60 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, at least 25% of the Company's total issued share capital was held by the public in compliance with the public float requirement 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 business of the Group.

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 RMB1.2 million for charitable and other purposes, please refer to Community Dedication on pages 115 to 116 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 favor, or in which he is acquitted.

During the year ended 31 December 2021, pursuant to the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong), 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 2021.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules from 1 January 2021 to 31 December 2021, 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 49 to 60 of this Annual Report.

On 1 January 2022, the amendments to the Corporate Governance Code (the "New CG Code") came into effect and the requirements under the New CG code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. The Board will continue to review and enhance the corporate governance practice of the Company to ensure compliance with the New CG Code and align with the latest developments.

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 53 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, 15 March 2022

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 2021 to 31 December 2021, 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 established and 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 2021. 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 has 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 four committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Environmental, Social and Governance 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

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. Leung Chong Shun, Ms. Luo Laura Ying and Mr. Fung Ching Simon. Biographical details of the Directors are set out on pages 34 to 36 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 seven 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, President	7/7	1/1
Mr. Chen Hongbing	Chief Operating Officer, Vice President	7/7	1/1
Ms. Chen Yanling	Chief Financial Officer, Vice President	7/7	1/1
Mr. Wu Chi Keung*	Independent Non- Executive Director	5/6	1/1
Mr. Leung Chong Shun	Independent Non- Executive Director	7/7	1/1
Ms. Luo Laura Ying	Independent Non- Executive Director	7/7	1/1
Mr. Fung Ching Simon*	Independent Non- Executive Director	1/1	N/A

*Notes:

1. Mr. Wu Chi Keung resigned on 6 October 2021.
2. Mr. Fung Ching Simon was appointed on 6 October 2021.

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 2021, 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, the Remuneration Committee, the Nomination Committee and the Environmental, Social and Governance 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 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 CG Code on continuous professional development during the Reporting Period.

Directors	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. Wu Chi Keung*	√	√
Mr. Leung Chong Shun	√	√
Ms. Luo Laura Ying	√	√
Mr. Fung Ching Simon*	√	√

*Notes:
1. Mr. Wu Chi Keung resigned on 6 October 2021.
2. Ms. Fung Ching Simon was appointed on 6 October 2021.

Committees

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

Audit Committee

The Company established the Audit Committee in 2007. The Audit Committee comprises three independent non-executive Directors, and is currently chaired by Mr. Fung Ching Simon, with Mr. Leung Chong Shun and Ms. Luo Laura Ying as the committee members. During the Reporting Period, Mr. Wu Chi Keung resigned as an independent non-executive Director of the Company on 6 October 2021, he also resigned as the chairman of the Audit Committee of the Company. Mr. Fung Ching Simon was appointed as an independent non-executive Director and the chairman of the Audit Committee of the Company on 6 October 2021.

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, and 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 2021 of the Company have been reviewed by the Audit Committee and approved by the Board with recommendation of the Audit Committee. 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 2021, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2020 with the external auditors, the interim results for 2021, 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 2021**
Mr. Wu Chi Keung (Chairman)*	2/2
Mr. Fung Ching Simon (Chairman)*	1/1
Mr. Leung Chong Shun	3/3
Ms. Luo Laura Ying	3/3

*Notes:

1. Mr. Wu Chi Keung resigned on 6 October 2021.
2. Mr. Fung Ching Simon was appointed on 6 October 2021.

Remuneration Committee

The Company established a Remuneration Committee in 2007. The Remuneration Committee comprises three independent non-executive Directors, and is currently chaired by Mr. Leung Chong Shun, with Ms. Luo Laura Ying and Mr. Fung Ching Simon as the committee members. During the Reporting Period, Mr. Wu Chi Keung resigned as an independent non-executive Director of the Company on 6 October 2021, he also resigned as a member of the Remuneration Committee of the Company. Mr. Fung Ching Simon was appointed as an independent non-executive Director and a member of the Remuneration Committee of the Company on 6 October 2021.

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 2021, the Remuneration Committee held three 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 2021**
Mr. Leung Chong Shun (Chairman)	3/3
Mr. Wu Chi Keung*	1/2
Ms. Luo Laura Ying	3/3
Mr. Fung Ching Simon*	1/1

*Notes:

1. Mr. Wu Chi Keung resigned on 6 October 2021.
2. Mr. Fung Ching Simon was appointed on 6 October 2021.

Nomination Committee

The Company established the Nomination Committee in 2007. The Nomination Committee comprises one executive Director and three independent non-executive Directors, and is currently chaired by Ms. Luo Laura Ying, with Mr. Lam Kong, Mr. Leung Chong Shun and Mr. Fung Ching Simon as the committee members. During the Reporting Period, Mr. Wu Chi Keung resigned as an independent non-executive Director of the Company on 6 October 2021, he also resigned as a member of the Nomination Committee of the Company. Mr. Fung Ching Simon was appointed as an independent non-executive Director and a member of the Nomination Committee of the Company on 6 October 2021.

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 2021, the Nomination Committee held two meetings. At the meetings, 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 2020 annual general meeting, and also assessed whether the independent non-executive Directors had spent enough time in fulfilling their duties and their independence; and proposed to appoint a new independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee, the Nomination Committee and the Environmental, Social and Governance Committee. 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 2021**
Ms. Luo Laura Ying (Chairman)	2/2
Mr. Lam Kong	2/2
Mr. Wu Chi Keung*	1/2
Mr. Leung Chong Shun	2/2
Mr. Fung Ching Simon*	N/A

*Notes:
1. Mr. Wu Chi Keung resigned on 6 October 2021.
2. Mr. Fung Ching Simon was appointed on 6 October 2021.

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 Board shall continue to maintain the gender diversity among the Board members. The Nomination Committee will review the Policy on a regular basis to ensure its continued effectiveness.

As at the date of this Annual Report, the Board's composition from a board diversity perspective is summarized as follows:

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

The Board will continue with its endeavor to maintain the gender diversity in the Board.

Environmental, Social and Governance Committee

The Company established the Environmental, Social and Governance Committee in 2020. The Environmental, Social and Governance Committee comprises one executive Director and two independent non-executive Directors, and is currently chaired by Ms. Chen Yanling, with Mr. Leung Chong Shun and Mr. Fung Ching Simon as the committee members. During the Reporting Period, Mr. Wu Chi Keung resigned as an independent non-executive Director of the Company on 6 October 2021, he also resigned as a member of the Environmental, Social and Governance Committee of the Company. Mr. Fung Ching Simon was appointed as an independent non-executive Director and a member of the Environmental, Social and Governance Committee of the Company on 6 October 2021.

The primary duties of the Environmental, Social and Governance Committee are to comprehensively formulate and review the administrative policies, strategies and structures of the Group's environmental, social and governance; to review environmental, social and governance-related policies, regulations and trends and provide decision-making advice to the Board of Directors regarding the Group's environmental, social and governance strategies and operations; to ensure the Company to comply with requirements of applicable laws and regulations; to monitor and supervise the formulation and implementation of the Group's environmental, social and governance objectives; to identify external environmental, social and governance trends, risks and opportunities; and to promote a positive culture throughout the Group and actively incorporate environmental, social and governance considerations into the business decision-making processes, etc. The terms of reference of the Environmental, Social and Governance 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 2021, the Environmental, Social and Governance Committee held four meetings. At the meetings, the Environmental, Social and Governance Committee reviewed the Group's overall environmental, social and governance (the "ESG") performance, reviewed the implementation progress of the Group's ESG objectives, reported the important trends affecting the Group's ESG strategies, assessed the impact of ESG risks and opportunities on the Group, guided and reviewed the Group's ESG materiality analysis, and reviewed and reported to the Board the 2020 ESG report of the Company. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2021
Ms. Chen Yanling (Chairman)	4/4
Mr. Wu Chi Keung*	3/3
Mr. Leung Chong Shun	4/4
Mr. Fung Ching Simon*	1/1

*Notes:
1. Mr. Wu Chi Keung resigned on 6 October 2021.
2. Mr. Fung Ching Simon was appointed on 6 October 2021.

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 2021, the Company has appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for its auditing and non-auditing service was HK$4.9 million and HK$1.3 million, respectively. The non-auditing service covered tax advisory service.

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 2021. 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 pages 130 to 132.

Risk Management and Internal Controls

The Group has established and designed appropriate policies and controls to ensure that assets are safeguarded against unauthorized 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 promptly 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 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, to actively and effectively communicate the Company's latest development strategy and business updates to the capital market. The Company interacts with its shareholders and investors mainly through the following channels: (i) holding Annual General Meetings and Extraordinary General Meetings; (ii) providing timely release of the latest news and updates of the Company on the official website as well as official accounts on WeChat and financial media platforms; (iii) replying questions related to the Company's business raised by shareholders and investors 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 and the investor relations team of the Company have received more than a thousand representatives of domestic and overseas institutions and individual investors.

The active and persistent communication with shareholders and investors has been recognized by third parties. During the Reporting Period, the Company was awarded the "Best Pharmaceutical and Medical Company" of the Golden Hong Kong Listed Companies, the "Most Socially Responsible Listed Company" of Jinqilin Awards, the "Honored Company", "Best IR Program" and "Best ESG" among small & midcap companies in Healthcare and Pharmaceuticals sector by the *Institutional Investor Magazine* ("*II Magazine*"), and the "Best Information Disclosure", "Best Capital Market Communication" and "Best Shareholder Relations" at the 4th and the 5th China IR Annual Awards Ceremony. In the previous years, the company received the awards of the Golden Hong Kong Listed Companies for four times including the "Most Valuable Medical and Pharmaceutical Listed Company" and the "Best Hong Kong Stock-Connect Company", the award of BIVA "The Listed Company with the Best Investment Value" twice, the awards of Chinese Securities Golden Bauhinia twice including the "Best Listed Company" and the "Listed Company with the Best Information Disclosure". The Group won the "Excellent Pharmaceutical Industry Award" in the selection of the eighth "Top 100 Hong Kong Listed Companies", the "Best Investor Relations" Award at the first China Enterprise Excellence Awards Ceremony, the "Best Case Award" at the 2nd China IR Annual Awards Ceremony, as well as the "Top 10 Listed Companies with the Highest Investment Value in China Pharmaceutical Industry in 2019", "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.The Company was also selected as one of the "Most Attractive Hong Kong Stock-Connect Companies for Institutional Investors", and recognized as the"Hong Kong Stock-Connect Company with the Most Substantial Growth Potential" of Golden Wing Award, and the "Honored Company" and "All-Asia Most Honored Company" by *II Magazine*. Mr. Lam Kong was named three times the "All-Asia Best CEO" in the healthcare and pharmaceutical industry among overall or small & midcap companies by *II Magazin*e. Ms. Chen Yanling was named eight times the "Best CFO" in the healthcare and pharmaceutical industry among overall or small & midcap companies by *II Magazine*, and awarded twice the "Best CFO" in Gelonghui's Best Listed Companies of Greater China Award. CMS's Investor Relations Team was named three times the "Best Investor Relations" in the healthcare and pharmaceutical industry among overall or small & midcap companies, the "Best IR Professional" and the "All-Asia Best Analyst Days" by *II Magazine*.

In the future, we will continuously maintain close, sincere and effective communication and interaction with investors, listen attentively to the feedback and voices from the capital markets, and further optimize investor relations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. About the Report

The Report is the sixth environmental, social and governance ("ESG") report of CMS. This is an annual report, which covers the fiscal year from January 1, 2021 to December 31, 2021 with some additional related information incorporated that may have occurred outside the Reporting Period.

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 Stock Exchange of Hong Kong Ltd ("SEHK").

The contents of the Report were formulated through systematic procedures, including: project kickoff, review and summarization of the 2020 ESG Report transcript, stakeholder questionnaire, identification and ranking of ESG material issues, determination of the disclosure scope of the Report, collection of relevant information and data, review on the relevant information and data, establishment of the 2022 ESG management goals, preparation of the Report, review and final approval of the Report by the Board of Directors.

1.2 Scope of the Report

The Report discloses the ESG risks and performances of the Group conforming to the principles of "Materiality", "Quantitative", "Balance" and "Consistency" mentioned in the *Environmental, Social and Governance Reporting Guide*. Unless otherwise indicated, the scope of the Report is the same as that of the 2021 Annual Report of the Group, and includes the Company, its wholly owned subsidiaries and majority owned subsidiaries.

1.3 Data Sources and Reliability Statement

The materials and cases disclosed in the Report were 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 Obtaining the Report

The Report, as a part of the Group's 2021 Annual Report, can be accessed and downloaded from SEHK's website (www.hkexnews.hk) and the Group's website (www.cms.net.cn). For further consultation, any opinion or suggestion regarding the Report, please contact the Group via ir@cms.net.cn.

2. ESG Management

CMS has upheld the values of "value creation for customers and social responsibility fulfilment" to continually develop high-quality, affordable drugs that meet clinical needs through innovation as its central driver to protect the people's health. In addition, by practicing the concept of sustainable development, CMS has kept improving the internal operations and governance, and actively committed itself to the charity and environmental protection practices and the maximization of its stakeholders' value. After being rated "AA" for the first time in 2020 by MSCI-ESG, the Group maintained the rating of "AA" in the latest MSCI-ESG rating released in December 2021 and was regarded as a company leading its industry in managing the material ESG risks and opportunities.

2.1 Statement of the Board of Directors

With the sustainable development goal of "carrying out the concept of environmental protection, achieving the value of social responsibility, being committed to becoming a leading sustainable pharmaceutical enterprise in China", in 2021, the Group integrated the environmental protection and social responsibility into the formulation of its operational strategy, contributing to China's efforts in achieving the "dual carbon" goals, namely carbon peaking and carbon neutrality.

The Group has set up scientific and effective ESG governance structure by establishing the ESG Committee at the Board of Directors level, with the Group's Executive Director as its Chairman to take charge of ESG management work and two independent non-executive directors as its members. Under the ESG Committee, the Group has organized the organization-wide ESG Working Group to comprehensively implement specific projects. Moreover, in order to step up the systematic, standardized and transparent ESG governance efforts, the Group has developed *The Environmental, Social and Governance Committee Terms of Reference* to specify the authorities and duties as well as procedures of the ESG management, to ensure the well-ordered advancement and efficient fulfilment of relevant tasks.

The Group attaches great importance to the global tendency of ESG governance, and always stays tuned to the trends of the industry development, and identifies ESG risks and opportunities by objectively reviewing current internal management status. Also, the Group employs the routine stakeholder communication mechanism to learn internal and external advice, demands and concerns, assesses and prioritizes ESG material issues, and takes them into full account when setting and adjusting management guidelines. Additionally, the Group's Board of Directors includes the ESG issues in the scope of its regular discussion and management, involves in the review and approval of the ESG management goals and improvement schemes, audits and grants necessary supporting resources, and reflects and follows up on the implementation progress of the established ESG management goals at the regular Board meetings. Meanwhile, the Group learns from the world's excellent ESG practices to identify the direction of further optimization based on its current operations. During the Reporting Period, the Group improved the management rules and policies in multiple areas of its internal operations, covering compliant operations, product liability, employment, supply chain, environmental protection, public welfare activities managements, and so on, provided more comprehensive guidance for the advancement of ESG management, further promoted the Group's sustainability development.

As a player in the healthcare industry, the Group is well aware of the importance of innovative research to the significant industry development. As driven by innovation with global vision, the Group has deployed nearly 30 innovative medicines with differentiated clinical advantages through collaborative research and development coupled with the quality control throughout the product life cycle, making those medicines with real clinical value more accessible to patients. Looking ahead, the Group will continue to assume the social and environmental responsibilities, build up the innovation strength, and work together with all its stakeholders towards green, efficient and sustainable development.

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

2.2 Structure and Process of ESG Governance

Thanks to years of ESG management practicing, the Group has formed a three-tier ESG governance framework consisting of the Board of Directors, the ESG Committee and the ESG Working Group to systematically carry out ESG management from the governance level of the Board of Directors to the ESG implementation level. The Group's ESG Committee consists of three directors, among them the Executive Director, Chief Financial Officer and Vice President of the Group, Ms. Chen Yanling is the Chairman of the Committee; The ESG Working Group comprises the heads from each department, and participates in the concrete implementation and reporting of the ESG work. *The Environmental, Social and Governance Committee Terms of Reference* has been published on the Group's official website for all stakeholder's reference.

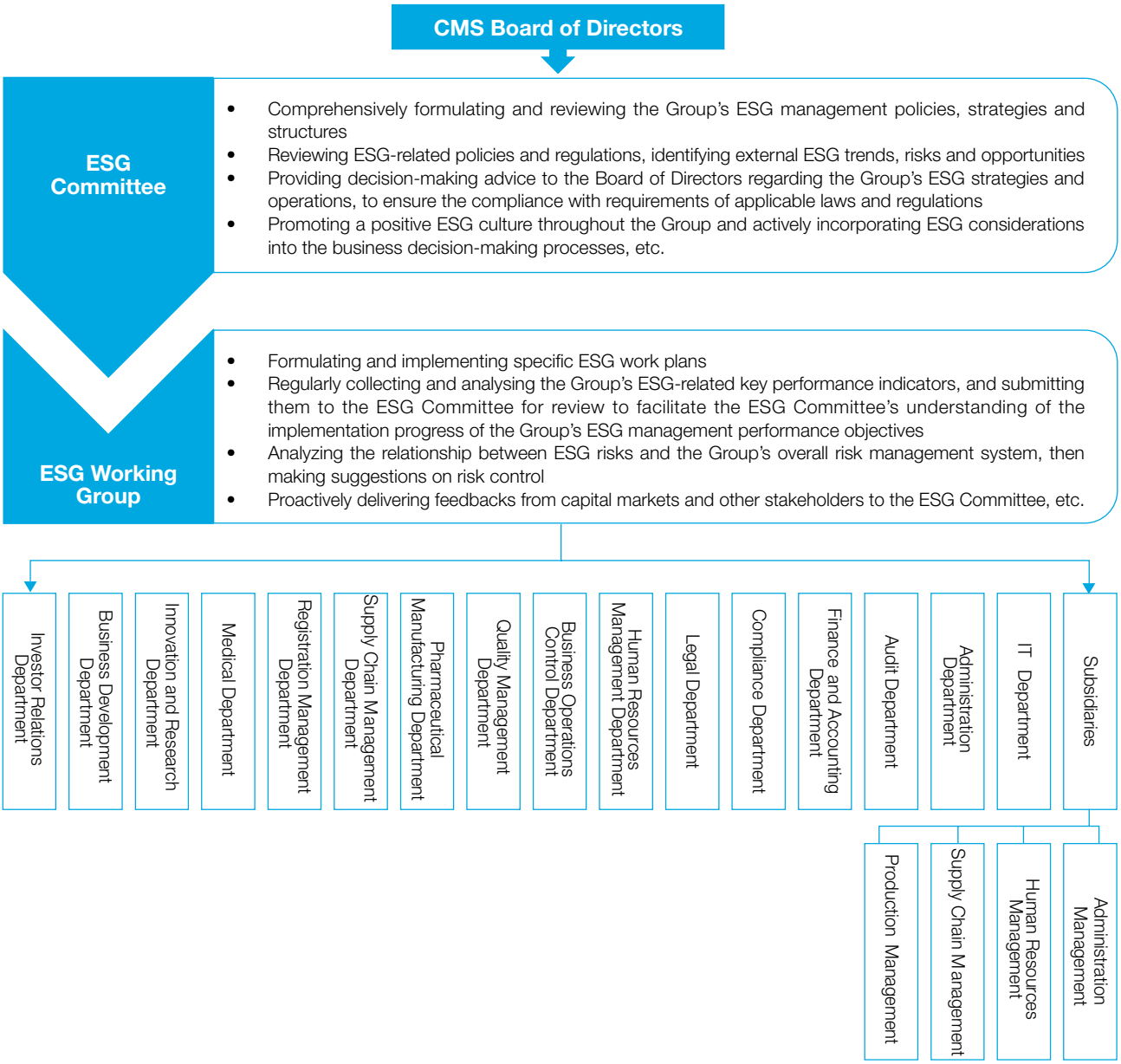


Figure 1 CMS's ESG Governance Framework

The Group's ESG management follows a nested closed-loop process:

- Reviewing the ESG management goals of the previous year, and proposing and implementing improvement solutions to the issues existing in ESG management through internal audit, ESG good practice benchmarking, professional third-party's recommendation, and other ways;
- Determining the ESG management goal for the current year based on the ESG management goal of the previous year and the internal improvement solutions;
- Dividing the ESG management goals to formulate corresponding ESG management supporting measures and plans;
- Supervising the execution of the measures through daily ESG management and dynamic monitoring of ESG information, and regularly reviewing the progress of the plan fulfilment;
- Preparing the annual ESG report according to the current situation of ESG management with reference to the results of stakeholders' survey analysis;
- Checking the results of ESG governance at the end of the year, making adjustments and setting new goals in accordance with the Group's latest internal and external situations.

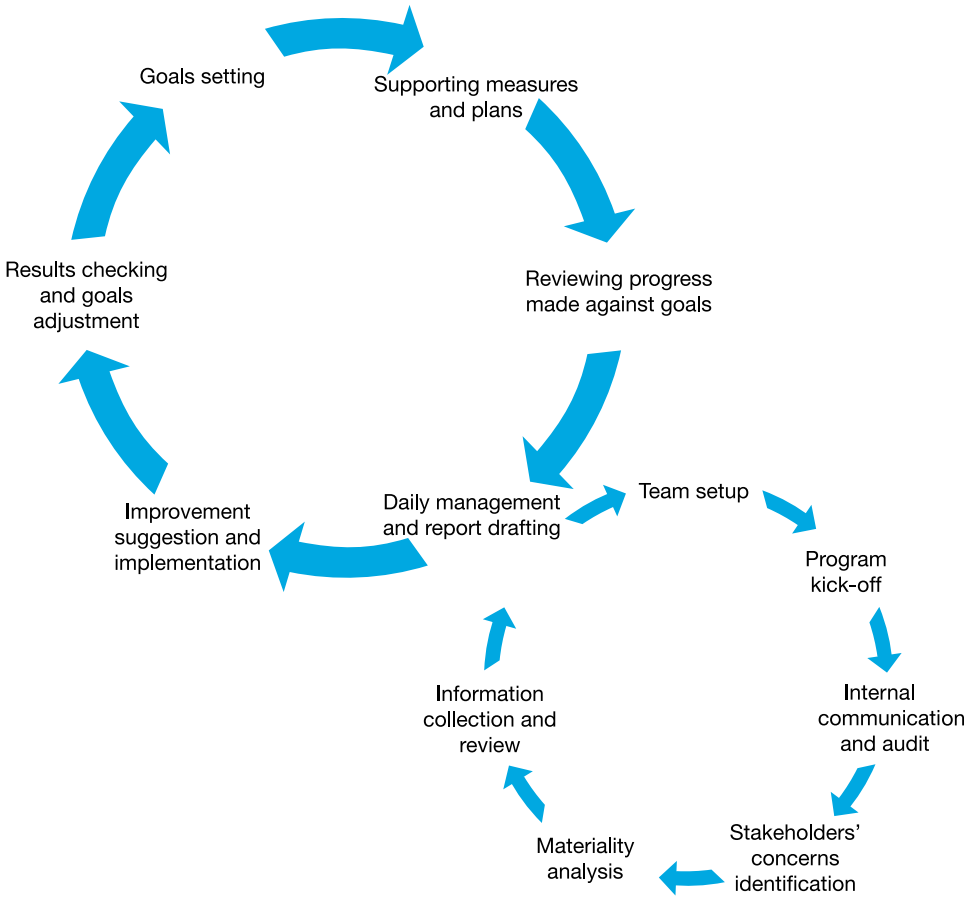


Figure 2 CMS's ESG Management Flow Diagram

2.3 ESG Governance Goal

The Group gives weight to the ESG management by objectives. During the Reporting Period, the Board of Directors reviewed the achievement of CMS's ESG goals regularly and formulated the ESG goals for the next year. See below for CMS's 2021 ESG management condition and 2022 ESG management goals.

Table 1 CMS's ESG Management Status in 2021 and ESG Management Goals for 2022

Issues	2021 ESG Management Status	2022 ESG Management Goals
ESG governance	The Board of Directors was deeply involved in the ESG management, reviewed ESG matters in its four regular board meetings in the year, and monitored improvement of ESG governance	Regularly reviewing internal diversity policy, continuously maintaining the diversity of the Board of Directors
Compliant operation	Established a sound anti-corruption control system based on comprehensive compliance policies, training system, supervision and assessment management, and refined the reporting process to ensure fair operation management	Further building a clean and law-abiding internal corporate culture. Suppliers and employees can 100% report against the Group's staff with their name or anonymously through the reporting and complaining channels and process
Product liability	Conducted responsible marketing based on the quality control throughout the product life cycle; focusing on public health, accelerated the expansion of clinically needed innovative products reserve and promoted their clinical development; improved the construction of an intellectual property protection system	Continuously optimizing the clinical research management system, propelling the registration process of innovative products in China, improving the accessibility of clinically needed drugs with high quality for patients; further intensifying the information security control and enhancing the customer privacy protection
Cooperation and mutual benefit	Ensured effective cooperation between the upstream and downstream of the supply chain, and strengthened the identification and control of ESG risks in each segment of the supply chain through the signing of the *Proposal for Suppliers* and a series of other measures	Making joint efforts with supply chain partners to build a sustainable business ecosystem while strictly controlling the quality and safety
People-oriented practice	Carried out employee climate surveys, to understand the employees' needs; continuously optimized the legal employment, employee development, health and safety and other human resource management policies and practices	Building regular and systematic employee communication system to further protect the rights and interests of employees, optimizing the organizational climate to meet employees' demands
Community dedication	Improved the relevant policies of public service, incorporated philanthropy into the long-term operation plan, undertook corporate social responsibilities via routine public welfare activities	Actively participating in social and public service activities, insisting on paying constant attention to and conducting impact tracking for donees and their communities, to ensure the donation serves its purpose
Environmental protection	Performed environmental audits for pharmaceutical factories, strengthened relevant risk identification and control, continuously optimized and upgraded the production process and equipment based on the actual operation to reduce the impacts on the surrounding environment	Continuously investing resources in environmental protection, and achieving environmental management goals by conserving energy and reducing emissions: (1)The greenhouse gas emission intensity is expected to be reduced by at least 5% by the end of 2023, comparing with 2020 (2)The hazardous waste intensity is expected to be reduced by at least 5% by the end of 2023, comparing with 2020 (3)The non-hazardous waste intensity is expected to be reduced by at least 2% by the end of 2023, comparing with 2020 (4) The electricity intensity is expected to be reduced by at least 2% by the end of 2023, comparing with 2020 (5) The water consumption intensity is expected to be reduced by at least 5% by the end of 2023, comparing with 2020

2.4 ESG Communication with Stakeholders

The Group has established a routine stakeholder communication system to maintain efficient communication with all stakeholders through diverse and targeted channels of communication, and actively respond to the stakeholder's requirements, in order to facilitate the implementation of the Company's sustainable development efforts. CMS has established connections with stakeholders via the following communication methods.

Table 2 CMS's Communication Methods with Stakeholders

Stakeholder	Major Communication Appeal	Main Communication Method
Government and regulatory authorities	• Compliance with laws and regulations, drug safety • Compliant operation under supervision • Tax compliance, employment creation	✓ Government-company seminar ✓ Supervision and inspection ✓ Work report and research
Investor/shareholder	• Standardized governance and rigorous risk control • Prudent operation and value creation • Disclosure compliance, openness and transparency	✓ General meeting, results announcement ✓ Company news, announcements and periodic report ✓ Telephone, email, voting at general meeting ✓ Company official website and WeChat official account ✓ Investor visit, conference and presentation ✓ External road show
Supplier	• Open and fair procurement • Timely communication, win-win developments	✓ Meeting and visit ✓ Work meeting, and communication via telephone and email ✓ Company official website and WeChat official account ✓ Industrial seminar ✓ Public bidding
Distributor	• Integrity management and compliant drugs • Timely communication, win-win developments	✓ Work meeting, and communication via telephone and email ✓ Company official website and WeChat official account ✓ Customer service hotline ✓ Meeting and visit
Employee	• Protection of rights and interests • Employee caring, demand communication • Remuneration and benefits, training and development	✓ Team building activity and employee training ✓ Feedback platform ✓ Employee reception room and management reception day ✓ Employee satisfaction and engagement survey
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 and forum ✓ Processing of customer complaint and feedback
General public	• Good interaction, information disclosure • Product safety, protection of rights and interests • Protection of privacy, business ethics • Inclusive health and charity • Community development and social value	✓ Product labelling and other information disclosure ✓ Processing of customer complaint and feedback ✓ Participation in community public welfare activities ✓ Propaganda of medicine and health knowledge ✓ Company official website and WeChat official account

2.5 ESG Material Issues

During the Reporting Period, in order to further clarify the Group's ESG management concerns, and promptly respond to the stakeholders' requests, the Group extended the ESG issues database and enlarged the coverage of the stakeholder survey with reference to external attention. Feedback from various parties were collected by means of online questionnaires survey as critical basis for the preparation of the Report and the corporate development management.

The Group makes materiality assessment through the following steps:

- Establishment of the issues database: CMS's ESG management issues library in 2021 has been completed and updated with reference to *Appendix 27 Environmental, Social and Governance Reporting Guide of Main Board Listing Rules* issued by SEHK, the concerns of the capital market, the development trend of the pharmaceutical industry and the Group's operations.
- Stakeholder engagement: The Group has established and implemented a stakeholder engagement plan for the year. Through communication with the stakeholder and distribution of online questionnaires, the Group has sought to understand the stakeholders' expectations and suggestions on CMS's ESG issues. During the Reporting Period, the Group received a total of 538 valid questionnaire responses, an increase of 241 compared to the previous year;
- Issue assessment: The Group has assessed the materiality of the issues in two dimensions: "importance to the enterprise" and "importance to the stakeholders", and obtained the materiality matrix and material issues list.
- Review and confirmation: The Group's Board of Directors has reviewed the assessment procedure of the material issues and confirmed the results.

Based on the results of the survey and discussions of the Board of Directors, the Group has ranked the materiality of issues in 2021 as follows:

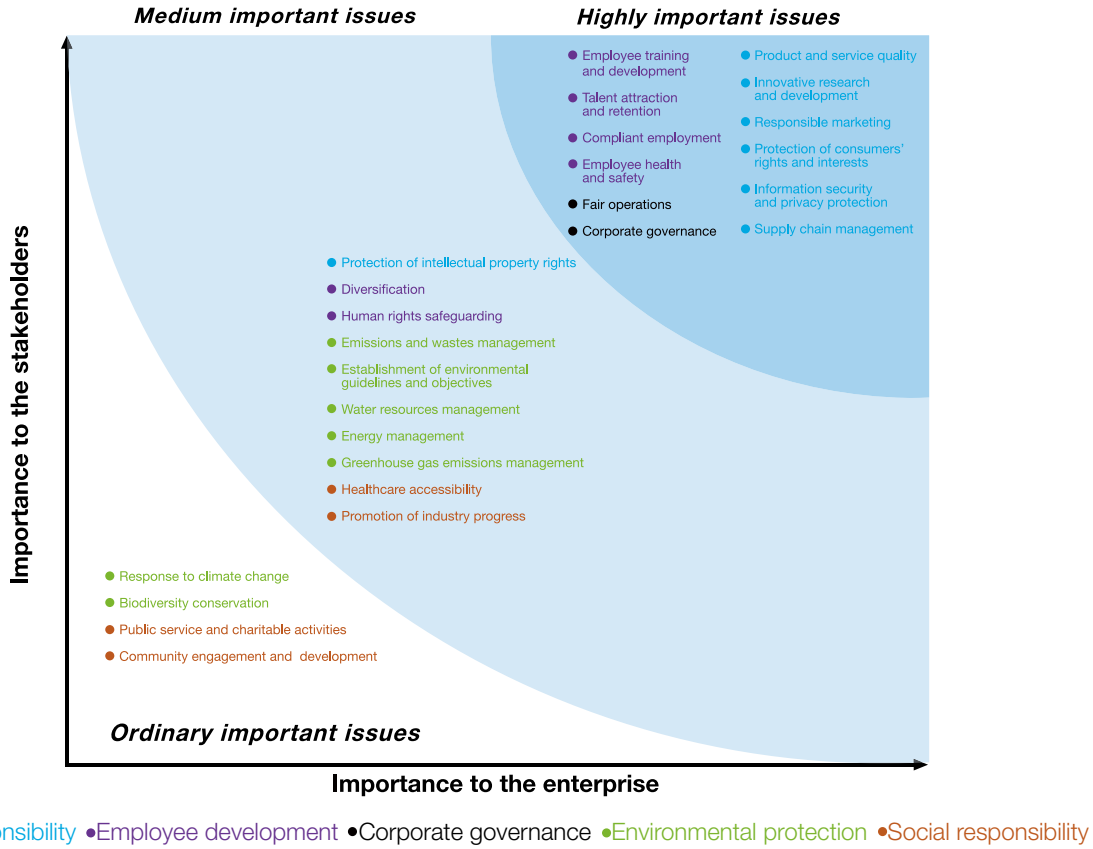


Figure 3 CMS's ESG Materiality Analysis Matrix

The materiality assessment of CMS 2021 ESG issues found 12 highly important issues, 10 medium important issues, and 4 ordinary important issues, the details of which are listed below:

Table 3 CMS's Material Issues List

Importance of issue	Issue scope	Issue
Highly important issue	Product responsibility	Product and service quality
	Employee development	Talent attraction and retention
	Product responsibility	Innovative research and development
	Company governance	Corporate governance
	Employee development	Compliant employment
	Employee development	Employee health and safety
	Employee development	Employee training and development
	Product responsibility	Responsible marketing
	Product responsibility	Protection of consumers' rights and interests
	Company governance	Fair operations
	Product responsibility	Information security and privacy protection
	Product responsibility	Supply chain management
Medium important issue	Environmental protection	Emissions and wastes management
	Product responsibility	Protection of intellectual property rights
	Social responsibility	Healthcare accessibility
	Environmental protection	Establishment of environmental guidelines and objectives
	Environmental protection	Water resources management
	Environmental protection	Energy management
	Social responsibility	Promotion of industry progress
	Employee development	Diversification
	Employee development	Human rights safeguarding
	Environmental protection	Greenhouse gas emissions management
Ordinary important issue	Environmental protection	Response to climate change
	Social responsibility	Public service and charitable activities
	Social responsibility	Community engagement and development
	Environmental protection	Biodiversity conservation

Based on the assessment results of materiality issues, the Group has prepared the ESG Report to respond to the above materiality issues in an orderly manner.

3. Compliance Operation

CMS adheres to the compliance operation principle, strictly observes the laws and regulations of the People's Republic of China and other countries and regions where its business operations and investments are located, and has an array of internal compliance management policies in place to regulate operations in all aspects. Meanwhile, the Group continually enhances its compliance management, vigorously builds a corporate culture of integrity and compliance, and refrains from unlawful acts such as bribery, extortion, fraud, money laundering and other forms of unfair competition by leveraging the Group's organization structure that clearly defines rights and responsibilities, efficient compliance training and assessment systems, smooth communication and whistle-blowing mechanism, and digital technology platform.

Table 4 Laws and Regulations and CMS' Rules and Policies Related to Compliance Operation

Field	Major laws and regulations	CMS' major rules and policies
Compliance operation	*Anti-Money Laundering Law of the People's Republic of China, 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 State Administration of Industry and Commerce, Prevention of Bribery Ordinance,* etc.	*CMS Anti-fraud Management Policy, Employee Code of Professional Ethics, Budget Management Policy, Procurement Management Policy, Internal Audit Policy, Code of Promotional Conduct, Speaker Regulations, Code of Management for Marketing Activities, General Regulation on Marketing Activities, Compliance Performance Assessment Policy,* etc.

The high standard for business ethics is practiced throughout the Group. A Compliance Management Committee has been set up, chaired by Mr. Lam Kong, the Chairman and Chief Executiveof the Group, and composed of management of the Group such as Chief Operation Officer, Chief Financial Officer and several directors of the Group. The Compliance Management Committee is responsible for overseeing the compliance governance and business ethics issues of the Group, and systematically examines the operations and compliance management of the Group through meetings to further avoid compliance risks and guarantee efficient and compliance operation of the Group.

3.1 Anti-corruption Management

The Group attaches great importance to the anti-corruption management, regarding it as a key part of compliance management. The Group has established *Employee Code of Professional Ethics, Code of Promotional Conduct, CMS Anti-fraud Management Policy, Budget Management Policy, Procurement Management Policy, Internal Audit Policy* and other regulations and policies, which explicitly require employees not to engage in any improper practices such as bribery, corruption, extortion, fraud and money laundering within the Group, or in the interaction with affiliated companies, and other stakeholders including the media, governments, distributors, suppliers and medical personnel. Any forms of facilitation fees are forbidden as well, for strict adherence to the ethical standards to solidify the foundation for compliance operation.

During the Reporting Period, the Group further revises and optimizes the policies on anti-corruption control and management, refined the operation process and the rewarding and disciplinary mechanism to regulate employees' conduct. The Group-wide study of the 2021 edition of *CMS Anti-fraud Management Policy* was conducted from director to employee level (including interns), covering more than 4,900 employees and the study of anti-fraud policy is still underway.

The Group has incorporated the anti-corruption training in its regular training system, adding the anti-corruption content to the compliant marketing training for employees, quarterly training for new recruits, training on expense reimbursement for employees, supply chain management training and other training courses to thoroughly enhance employees' awareness of business ethics and clarify relevant work specifications.

The Group has also constructed an inter-department and multi-dimensional anti-corruption supervision system, and kept strengthening inter-departmental collaboration to improve the capability of corruption risk prevention and control within the enterprise. The Compliance Department of the Group is responsible for improving and optimizing the anti-corruption practice policies, code of conduct and systems, and building a legal and proper framework for compliance activities; the Audit Department carries out irregular audit to promptly identify and control the compliance risk in the operation. During the Reporting Period, the Audit Department carried out 7 audit projects relating to anti-corruption and business ethics at the Group level, identifying relevant risks in each operation activities such as procurement, marketing and investment, produced audit reports and submitted them to the management for timely control and management of compliance risks including anti-corruption and business ethics. The Finance and Accounting Department has developed financial management measures based on the compliance framework to firmly control the entire process from expense budgeting to reimbursement, and in the meantime, leveraged the digital management system to enforce the review and process control, enhancing the transparency of expenses and the compliance of all stages of internal operation; the Legal Department has reviewed all legal documents such as contracts and agreements in the process of business operation, in order to control and prevent legal risks for the Group. Additionally, the Group is subject to the special compliance audit conducted by some multinational suppliers every year, and regularly engages a professional third party to run extra special audit and issue audit report to ensure that the Group's operations comply with the suppliers' high standard compliance requirements.

If it is found and verified after examination that any employee has certain improper behaviours in business, the promotion of the specific employee will be negatively affected, warning or dismissal will be considered for serious cases, and if the act constitutes a crime, the specific employee will even be transferred to the judicial authority for criminal responsibility. In December,2021, the Group promoted all employees to study and sign the *CMS Self-discipline Commitment* to keep the employees more alert to commercial bribery and further enhance the anti-corruption management of the Group. As of 31 December 2021, more than 4,000 employees (including management and general employees) signed the Commitment and the studying is still underway.

Table 5 Abstract of the *CMS Self-discipline Commitment*

Employee's commitment:

- Strictly abiding by the provisions related to incorruptibility and self-discipline
- Properly exercising authority and not using authority to make undue benefit for oneself or a specific related other
- Not embezzling or occupying the resources of the Group, or leveraging own authority to influence or interfere with the Group's business
- Resolutely resisting commercial bribery, not accepting any property from any affiliated units or suppliers
- Not offering bribes to or soliciting bribes from any business-related personnel

Meanwhile, the Group proactively advocates and regulates the suppliers' business ethical conduct. When signing the supply contracts, the suppliers are required to strictly comply with the applicable local laws and regulations, including the provisions related to business ethics. During the Reporting Period, the Group initiated the signing of *Proposal for Suppliers* to domestic and overseas suppliers, advocating their adherence to zero tolerance to any forms of corruption, extortion or bribery, in an attempt to further build a clean supply chain. While distributing the *Proposal for Suppliers*, the Group constantly gathered the suppliers' internal policies and regulations on anti-corruption, and proactively exchanged anti-corruption management measures and experience with them, with a view to promoting communication and sharing of the integrity culture based on transparent, compliant, and ethical business cooperation. During the Reporting Period, more than 50% of the suppliers have signed the *Proposal for Suppliers* (as of 31 December 2021, the total number of the Group's suppliers is 151).

Table 6 Abstract of the *Proposal for Suppliers*

The Group proposes that suppliers:

- Complying with applicable laws, regulations, guidelines, etc. where they operate
- Providing quality, safe and effective products and services that meet the quality standards and contractual agreements of the countries/regions where they operate
- Resolutely resisting bid rigging, bid collusion, accepting of kickbacks and other unfair competition behaviours
- Adhering to zero tolerance for any form of corruption, extortion or bribery

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

3.2 Compliant Marketing and Promotion

The Group implements the concepts of compliance in its marketing and promotional activities, sticking to stringent standard of business ethics and professional way of act, and practices responsible marketing and sales during the interactions with medical and healthcare professionals as well as medical institutions. The Group has developed a complete and clear compliant marketing management system, including several important elements such as compliance rules and regulations, compliance team, compliance training, compliance monitoring and assessment, compliance communication and complaint/appeal, to regulate the marketing and promotional conduct via an all-round system. In addition, the Group has a Compliance Department that exercises multi-dimensional control over promotional behaviours to support the full implementation of the compliant marketing system, in order to eliminate corruption and bribery.

Marketing Compliance Regulations and Policies

The Group has established the comprehensive internal promotion compliance system and standard procedures in accordance with the laws and industry norms, and made timely updates and modifications with the changes in relevant regulations and norms, to provide guidance for its compliant marketing promotion activities. The Group's compliance policies and regulations, including *CMS Anti-fraud Management Policy, Compliance Performance Assessment Policy, Employee Code of Professional Ethics* and *Code of Promotional Conduct*, have provided a sound basis for the implementation of the marketing compliance management. Moreover, the Group has formulated complete standard operation manuals for marketing, including *General Regulation on Marketing Activities, Code of Management for Marketing Activities, Speaker Regulations*, and *Code for Reimbursement of Regional and Headquarters Activity Expenses*, to further specify the work processes and requirements for promotional activities, and mitigate compliance risks in a systematic manner.

Marketing Compliance Promotion and Training

The Group sets responsible marketing and promotion as a key concern in the promotion and training activities for employees. By means of timely, diverse, accessible and understandable communication and training activities, the employees' awareness and understanding of the importance of responsible marketing and relevant codes are strengthened.

The Group has launched several online compliance windows to promote compliance regularly and timely, ensuring the management and employees are fully aware of the Group's compliant marketing requirements in time. Furthermore, the Group periodically organizes various online and offline compliance trainings. During the Reporting Period, the Group ran the compliance training for a total of 15 times targeting the management and/or academic marketing personnel of the Group.

The contents of the compliance promotion and training include but not limited to:

- Holding monthly compliance communication meeting with the promotion team, presenting and elaborating the latest performance and key points of compliance management
- Publishing, sharing and interpreting compliance policies on the Group's internal digital communication platform on a monthly basis, to facilitate the learning of the latest compliance policies for the management and employees;
- Setting the "I want to ask a compliance question" column to provide an open channel for employees to ask compliance-related questions, which will be responded by the Compliance Department within a week. The corresponding responses to employees key concerns are published on the internal digital platform;
- Organizing monthly compliance induction training and quiz for new employees, with the quiz results linked to the annual incentive to and appraisal of the promotion team, to enhance the employees' emphasis on compliance;
- Before and after a new regulation or policy is issued, promptly providing training and directions by means of video teaching, and requiring employees to pass related test, making sure they are familiar with and have a good command of the relevant regulation and policy.

Marketing Compliance Monitoring and Assessment

To strengthen employees' awareness of compliance and the management's engagement and control, the Compliance Department routinely conducts due diligence, unannounced inspection, compliance review of academic promotion activities, etc.; and regularly conducts special spot check, review of marketing vendor, and verification of information authenticity, etc. It produces monthly analysis, examination and assessment reports and the reports are submitted to the management on a regular basis. In addition, the Finance and Accounting Department of the Group scrutinizes the compliance of marketing activities from the perspective of the expense reimbursement by checking the related contracts, site photos, invoices and other vouchers. The Audit Department also carries out irregular audits of marketing activities, verifying the compliance of expenses incurrence, to further reinforce the compliance supervision.

Moreover, the Group has established the *Compliance Performance Assessment Policy* that takes marketing compliance into considerations of the promotion personnel's performance assessment. Therefore, if it is confirmed that any employee breaches the regulations, the employee's bonus and promotion will be negatively affected, and dismissal will apply in serious cases. In order to show that the compliance assessment is originally intended for education instead of penalty, the Group builds a bonus pool with the fines related to compliance to award compliance outperformers, with an aim to provide positive guidance and encouragement. During the Reporting Period, the Group further improved the *Compliance Performance Assessment Policy* by refining the rules for punishing incompliant marketing activity and optimizing the process for employee appeal, to help achieve fairer and more effective compliance assessment management.

Marketing Compliance Communication, Complaint/Appeal

The Group has a Compliance Management Committee chaired by Mr. Lam Kong, the Chairman and Chief Executive of the Group. Compliance Management Committee assesses the current situation of the Group's compliance management, optimize proposals, form resolutions and follow up their progress. Additionally, the Group has regional compliance teams made up of regional managers and compliance specialists in all business regions to enhance the efficiency of compliance information delivery and communication through a dedicated team. Moreover, the Group has launched an open and transparent complaint and appeal system, by which all employees can communicate with and lodge complaints and appeals to the Compliance Department, the compliance teams, and the management of the Group via email, telephone, internal communication system, and other channels.

3.3 Whistleblowing Management

The Group maintains a strict and complete whistleblowing system, and continuously expands the reporting channels and refines the handling process. During the Reporting Period, the Group newly established a website reporting channel to improve the reporting accessibility for the general public. The Groups further refined the *CMS Anti-fraud Management Policy,* specifying the reporting channels, handling process and whistleblower protection provisions to ensure all complaints are duly handled.

Reporting Channels

- Telephone: 0755-82416868 ext. Compliance Department
- Email: compliance@cms.net.cn
- WeChat official account: CMS00867
- Mailing Address: Compliance Department, 6F, Block B, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, China, 518052
- Website: www.cms.net.cn

Figure 4 Main Reporting Channels

3.3.1 Complaint Process

The Group has established a structured reporting handling processes, and explained and clarified the processes including but not limited to complaint acceptance, handling, results notification, and appeal in the *CMS Anti-fraud Management Policy.*

Acceptance	The Group accepts various forms of real-name or anonymous reporting, makes and retains records of complaint and proof information accurately and completely during the process of acceptance.
Handling	After a complaint is accepted, the content of the complaint and related information will be verified and evaluated. If the reporting content is eligible for case opening, investigators will be appointed according to the position of the person being reported against, and the investigation results be recorded and analyzed. By the avoidance principle, the person being reported against shall not participate in the anti-fraud investigation against him/her as an investigator. Once verified, the investigation records will be submitted to the management members for review. The reporting case will be dealt with exactly in line with the Group's evaluation results, followed by announcement within the Group.
Notification	Within 3 working days after the case is handled, a reply on the handling progress and results will be given to the whistle-blower in spoken or written, or by other proper forms. The whistle-blower has the right to ask the Group about the complaint handling progress and the reporting handling personnel shall reply in a timely manner.
Appeal	If an employee believes that his/her legal rights and interests are harmed, he/she will have the right to make an appeal to the relevant department of the Company and request for a solution.
Archives management	Anti-fraud personnel shall keep properly all the documents throughout the process of the acceptance, registration, investigation and reporting of the whistleblowing complaint. After the end of the whistleblowing examination / investigation, the relevant whistleblowing materials shall be collected as confidential documents.

Figure 5 Reporting Handling Process

3.3.2 Whistleblower Protection

The Group provides all-round protection of whistleblowers, taking all reasonable means to keep whistleblowers from any harm. The *CMS Anti-fraud Management Policy* has clearly stated that anonymous reports are allowed, the whistleblower's personal information and reporting materials shall be kept confidential, and the whistleblower's identity shall not be disclosed without the whistleblower's consent. In the case that any complaint handlers violate the whistleblower protection provisions including intentionally disclosing the whistleblower's information or the reporting content, or reacting negatively or refusing to respond to the reasonable protection request made by the whistleblower for being afraid of being/having been taken revenge on or treated unfairly, the whistleblower may directly report that to the Board of Directors or the Board of Supervisors of the Group. The Group will take disciplinary actions against the violator. Moreover, if any employee harasses or harms the whistleblower, such act will be deemed as serious misconduct, and will be dealt with severely once confirmed.

4. Product Liability

The Group takes "offering competitive products and services to meet China's unmet medical needs" as its mission, upholds the policy of "continuous improvement, quality first", puts a high value on product liability, and strictly abides by applicable national laws and regulations in terms of product and service quality, marketing compliance, privacy protection, pharmacovigilance, protection of intellectual property rights, etc.

The Group has established a complete internal product quality management system that covers the entire process from clinical research and development, registration and evaluation, manufacture management, launch and medication, post-approval supervision up to product phase-out. The Group applies the digital drug tracing and pharmacovigilance system throughout the product life cycle to guarantee the proper implementation of the product liability system, to comprehensively control over product quality and prevent safety related risks, in order to guard the health of Chinese people with accessible, affordable and reliable drugs.

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

Table 7 Laws, Regulations and CMS' Rules and Policies Related to Product Liability

Field	Major laws and regulations	CMS' major rules and policies
Product and service quality	*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, Provision for Drug Registration, Good Manufacture Practice of Pharmaceutical Products, Measures for the Supervision and Administration of Pharmaceutical Production, Provisions for Supervision of Circulation of Pharmaceuticals, Good Supply Practice of Pharmaceutical Products, Administrative Measures for the Import of Drugs, Good Supply Practice of Medical Devices, Law of the People's Republic of China on Safeguarding the Consumer Rights and Interests*, etc.	*Quality Risk Management Policy, Internal Audit Management Policy of Quality Management System, Regulations on Drug Procurement, Regulations on Drug Check and Acceptance, Regulations on Drug Maintenance, Regulations on Purchaser' Qualification Review, Management Procedures for Production Process, Regulations on Drug Storage, Derivation Management Procedures, Alteration Management Procedures, Management Procedures for Corrective and Preventive Measures, Regulations on Quality Responsibility, Management Procedures for Unqualified Product, Regulations on Drug Transportation, Regulations on Warehouse Fire Safety Management, Regulations on Inspection, Maintenance and Servicing of Equipment and Facilities, Drug Traceability Management System,* etc.
Marketing, advertising, and labelling	*The Advertising 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, Provisions for Drug Insert Sheets and Labels*, etc.	*Code of Promotional Conduct, Regulations on Drug Sale, Regulations on Label Control, Regulations on Speakers, Code of Management for Marketing Activities, Code for Management of Academic Promotion Materials, Promotion Auxiliaries and Medical Items, Regulations on Advertisement, Operating Procedures for Advertisement Review, Regulations on Academic Promotion Materials, Operating Procedures for Design, Review and Approval of Printing and Packaging Materials,* etc.
Privacy protection	*Civil Code of the People's Republic of China, Personal Information Protection Law of the People's Republic of China, Cyber Security Law of the People's Republic of China, Personal Data (Privacy) Ordinance (Law of Hong Kong Chapter 486), Good Clinical Practice*, etc.	*Employee Code of Professional Ethics, CMS Code of Conduct, CMS Confidentiality Regulations, Regulations on Information Security Management, Management Procedures for Clinical Research*, etc.
Pharmacovigilance and product recall	*Good Pharmacovigilance Practice, Measures for Reporting and Monitoring of Adverse Drug Reactions, Guide for Reporting and Monitoring of Adverse Drug Reactions (for Trial Implementation), Standard and Procedure for Rapid Reporting of Safety Data During Drug Clinical Trials, E2B (R2) Technical Specifications for Safety Message Processing and Individual Case Safety Reports, Administrative Measures for Drug Recalls*, etc.	*Regulations on Drug Safety Information Management, Operating Procedures for Drug Safety Report Handling, Operating Procedures for Medical Information Consultation and Processing, Operating Procedures for Pharmacovigilance System,Operating Procedures for Regular Safety Reporting Management, Operating Procedures for Group Adverse Events Caused by Products, Operating Procedures for Drug Safety Signal Detection, Operating Procedures for Document Retrieval for Product Safety Information, Operating Procedures for Product Safety Event Handling Plan, Pharmacovigilance Continuity Plan, Operating Procedures for Pharmacovigilance Corrective and Preventive Measures, Regulations on Drug Recall, Operating Procedures for Drug Recall*, etc.
Intellectual properties protection	*The Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China*, etc.	*CMS Intellectual Property Management Policy, CMS Anti-fraud Management Policy, CMS Code of Trademark Use*, etc.

4.1 Quality of Product and Service

The finished drugs promoted and sold by the Group are mainly manufactured in countries of manufacturing origins (the suppliers) such as Germany, Denmark, the United Kingdom and France. Pharmaceutical manufacturers in regions or countries such as Europe and the United States have stricter code for quality management and higher quality standards. A small fraction of the rest products are self-produced (during the Reporting Period, the sales contribution from self-produced products only accounted for around 2.9% of the Group's turnover in the case that all medicines were directly sold by the Group). All drugs promoted and sold by the Group have been registered and approved by NMPA. The subsidiaries with their core business in pharmaceutical promotions and sales have strictly complied with Good Supply Practice of Pharmaceutical Products (GSP) and passed the relevant inspection, and the subsidiaries with their core business in pharmaceutical manufacturing have strictly complied with Good Manufacture Practice of Pharmaceutical Products (GMP) and passed the relevant inspection.

Meanwhile, the Group provides regular trainings on product quality and safety management for employees involved in drug development and research, production and operation annually, including but not limited to relevant laws and regulations, professional knowledge and skills, quality management system documents, etc.

4.1.1 Product Quality and Safety

For self-produced products, the Group has strict selection criteria for material suppliers and classifies suppliers according to the importance of materials. Material suppliers, which have important impact on drug quality and medication safety, are required to undergo on-site inspection and audit at least once a year. In addition, the Group carefully inspects incoming materials, including checking information, sampling according to *Sampling Management Procedures* and testing before putting them into use. Meanwhile, to comprehensively guarantee the quality of production materials, the Group has built a traceable material information database for relevant processes and has dedicated personnel to conduct filing management. For finished products, the Group inspects each batch to ensure the products are qualified and well-packed before entering the market. For specific products, samples are taken strictly according to national standards to test stability before outbound delivery, to ensure that products quality align with national standards. The Group also regularly checks the status of production equipment, strictly records the production parameters and the operation process, and has dedicated personnel to monitor the entire manufacturing process.

For imported drug products, including the first imported batch of drugs, biological products, products of standard change or manufacture process alteration and when the company deems necessary, strict inspections are carried out by official professional institutions in accordance with the requirements of national regulations and Import inspection Report shall be issued. The Quality Management Department of the Group conducts the inspection as per GSP requirements once the imported drug products and domestic drug products arrive, and examines the inspection reports(such as Import Inspection Report and/or Inspection Report of Manufacturer) to ensure quality compliance with national requirements. If any product is found to be unqualified, the Group will process in accordance with *Unqualified Product Management Procedure* and timely report in writing. If the products are confirmed as unqualified, the Storage and Logistics Department will transfer the products to the "unqualified zone" for the separate storage. And these products will be recalled and returned to the supplier, or applied to be discarded or destroyed if necessary.

The Group attaches great importance to the storage and warehousing safety of drugs, and has 25 warehouses with well-equipped storage facilities. The Group has formulated *Regulations on Drug Storage* and *Regulations on Warehouse Handling Area Working Safety Management* to specify the drug warehousing process and handling requirements. The Group has also formulated *Regulations on Warehouse Hygiene, Regulations on Warehouse Fire Safety Management, Regulations on Inspection, Maintenance and Servicing of Equipment and Facilities* and *Regulations on Drug Maintenance* to specify the warehouse hygiene conditions, fire safety management, equipment maintenance and drug maintenance. The Group has drug maintenance personnel in the warehouse to constantly monitor the equipment and the storage condition of the drugs, and quarterly summarize and analyse the drug storage and warehousing status.

The Group has formulated the D*rug Traceability Management System* and established a complete product information database with the electronic trace code and the digital system conforming with GSP requirements. The electronic trace code of the drug packaging box, which provides a unique traceable marker for the minimum packaging unit, realizes the information-based traceability of the minimum packaging unit of drugs. Meanwhile, in order to satisfy the business development needs, the Group continuously optimizes the digital system, further providing more effective and comprehensive quality control support for the drug procurement, storage, sale, transportation, and others.

In addition, the Group has *Regulations on Internal Audit of Quality Management System and Operating Procedures for Internal Audit of Quality Management System* in place to conduct the self-inspection and audit of all parts of the quality management system, and rectify the defects found in the internal audit annually. Meanwhile, the Group actively embraces routine inspections and rectification suggestions from external regulators, and effectively promotes the implementation and timely completion of the improvement plan.

4.1.2 Product Labelling, Marketing and Advertising

On the basis of complying with the national laws and regulations, the Group practices responsible marketing, and has formulated a series of internal regulations and codes of promotional conduct, such as *Regulations on Advertisement, Operating Procedures for Advertisement Review, Code of Promotional Conduct, Regulations on Speakers, Code of Management for Marketing Activities, Code for Management of Product Academic Promotion Materials, Promotion Auxiliaries and Medical Items*, to strictly prohibit any promotion that overstates the drug efficacy and etc. Various internal policies stipulate that the drug promotion materials shall be accurate, objective, fair and complete, timely reflect the updated drug information and shall be consistent with the information approved by national regulatory authorities. The promotional materials shall not be effective until they are submitted by the product team of the Marketing Department to the head of Marketing Department for approval, and their academic accuracy shall be examined and approved by multiple levels of responsible persons from the Medical Department of the Group. The Group also has set the *Provisions for Label Control and Management* and *Operating Procedures for Design, Review and Approval of Printing and Packaging Materials* to ensure that drug classification and packaging labelling comply with laws and regulations and the approval documents of regulatory authorities, and used anti-counterfeiting marks on the labels to solidify the foundation for responsible marketing. In addition, the Group rigorously abides by the publication rules of academic promotion advertisement, applies for advertising approval from relevant government departments according to law, and publishes the approved advertisements in professional magazines designated by the NMPA.

4.1.3 Product Complaints

Oriented with creating value for customers, the Group has established a complete customer complaint handling system. For that, the Group has formed the *Regulations on Quality Complaints* and *Operating Procedures for Quality Complaints* to specify the processes of receiving and handling customer complaints, communication and feedback, providing overall guidance for efficient handling of after-sales complaints.

The Group offers diverse customer complaining and reporting channels, including telephone, fax, email, official website, etc. After receiving quality complaints, the employee of the Group shall collect relevant materials as much as possible, and transfer complaints to the Quality Management Department of the Group in time via internal communication methods. After receiving complaints, the Quality Management Department will timely record relevant information into the system and handle the complaints hierarchically. Through the investigation and evaluation, follow-up handling, timely feedback, subsequent tracking and archiving and filing and other processing procedures, the problems verification, effective handling and timely feedback can be realised.

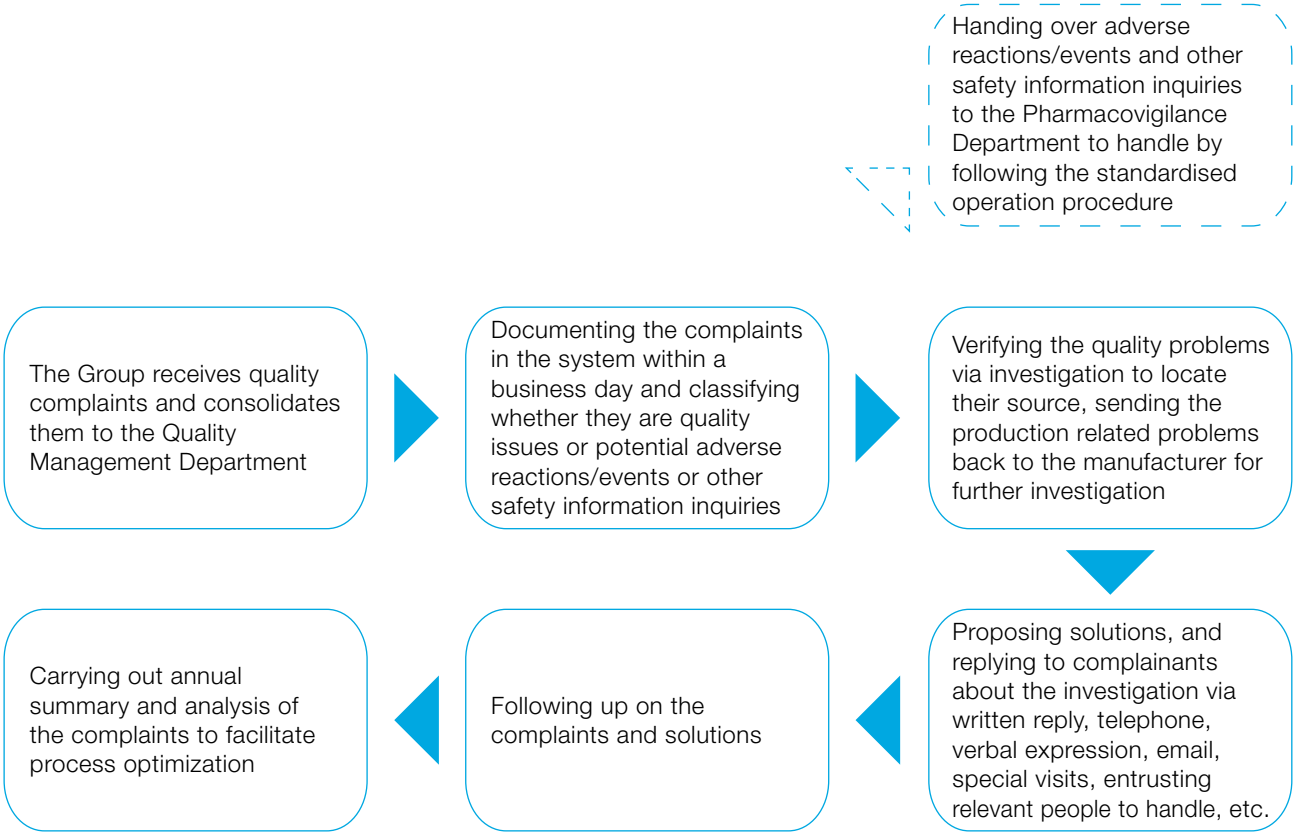


Figure 6 Customer Complaint Handling Process

During the Reporting Period, the Group's product and service quality data is shown below:

Table 8 Product and Service Quality Related Complaints data

	Unit	Year 2021
Number of product and service related complaints	number	160
Response and handling rate for product and service quality related complaints	%	100

4.2 Pharmacovigilance and Product Recall

The Group stresses on the establishment and optimisation of pharmacovigilance and product recall mechanism. The Group has established a comprehensive pharmacovigilance and product recall management system, operational procedures and handling plans in accordance with regulations, industry guidelines and other requirements, so as to fully deploy and implement quality and safety assessment, risk identification and control throughout the product life cycle from clinical researching to post-marketing.

4.2.1 Pharmacovigilance

After being informed of adverse reactions/events and other safety information on a product, the Pharmacovigilance Department of the Group will follow the Group's *Operating Procedures for Safety Report Handling for Drugs* to timely and truthfully record them using the digital pharmacovigilance system, investigate, analyse, assess and summarise the adverse reactions/events and other safety information, and then report them to the regulatory authorities in accordance with regulatory requirements. Moreover, the Pharmacovigilance Department of the Group also proactively collects adverse reaction information on products by various means, such as the official adverse event reporting channel, communicating with practitioners in medical institutions and third-party professional institutions, and consulting academic literature.

The Group regularly assesses safety risks of products, including drugs approved for clinical trials and authorized for marketing in China, and generates the *Periodic Safety Update report* or *Development Safety Update Report*. In addition, the Group regulates the emergency plan for drug safety event according to the *Operating Procedures for Product Safety Event Handling Plan*, timely monitors, evaluates and controls potential risks, and takes immediate and effective measures to deal with the risk once it is identified to prevent further damage. In addition, the Group maintains close communication with domestic and overseas drug/medical device marketing authorization holders and other related partners as well as relevant regulatory authorities to further supervise the continuous improvement of the Group's pharmacovigilance and quality system, ensuring the medication safety of patients.

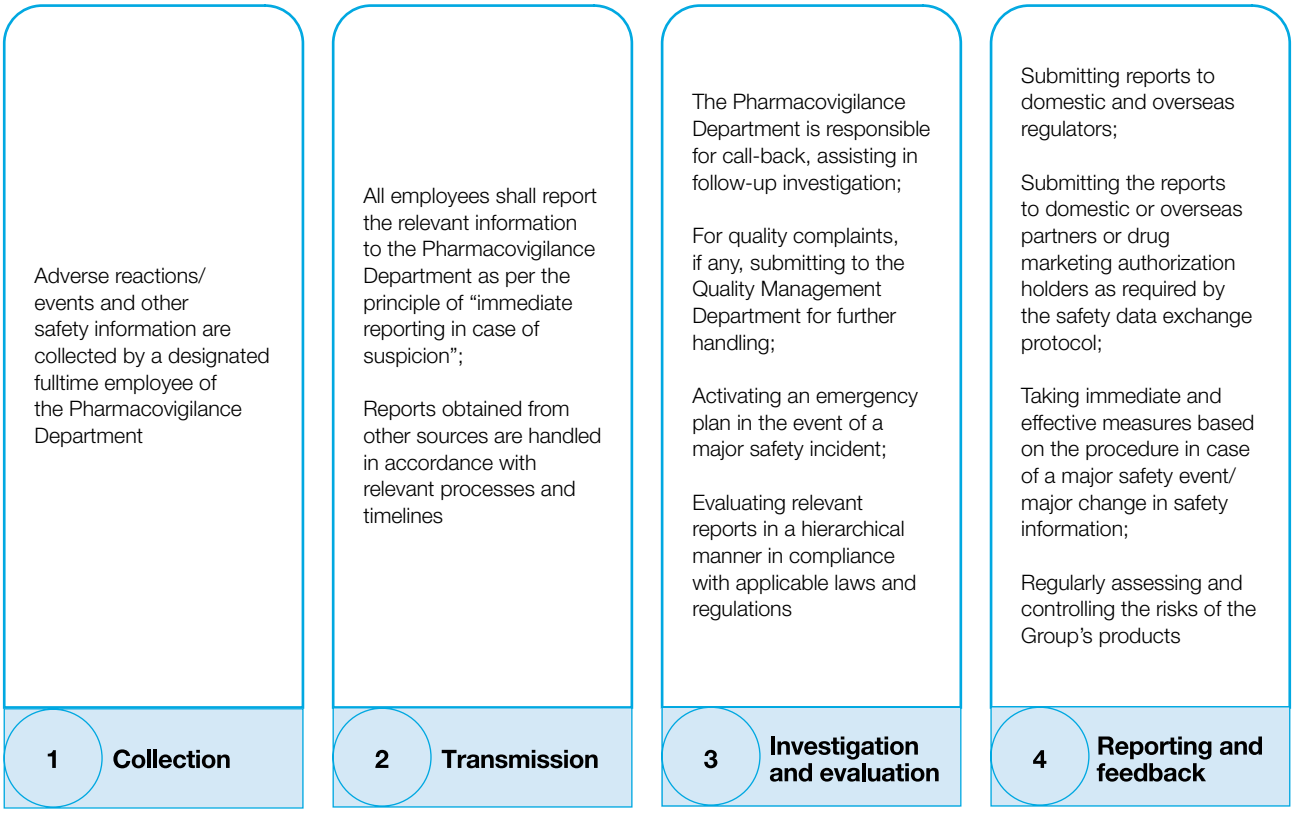


Figure 7 Adverse Reaction/Event Handling Process

4.2.2 Product Recall

The Group has formed relatively complete and mature recall mechanisms and operating procedures, including *Regulations on Drug Recall* and *Operating Procedures for Drug Recall*. If any hidden safety hazard occurs to products, the Group will immediately initiate the recall process. The relevant departments and subsidiaries of the Group regularly hold mock recall drills to ensure effective recall of defective products in the shortest time in case of an emergency, so as to protect customers' rights and interests.

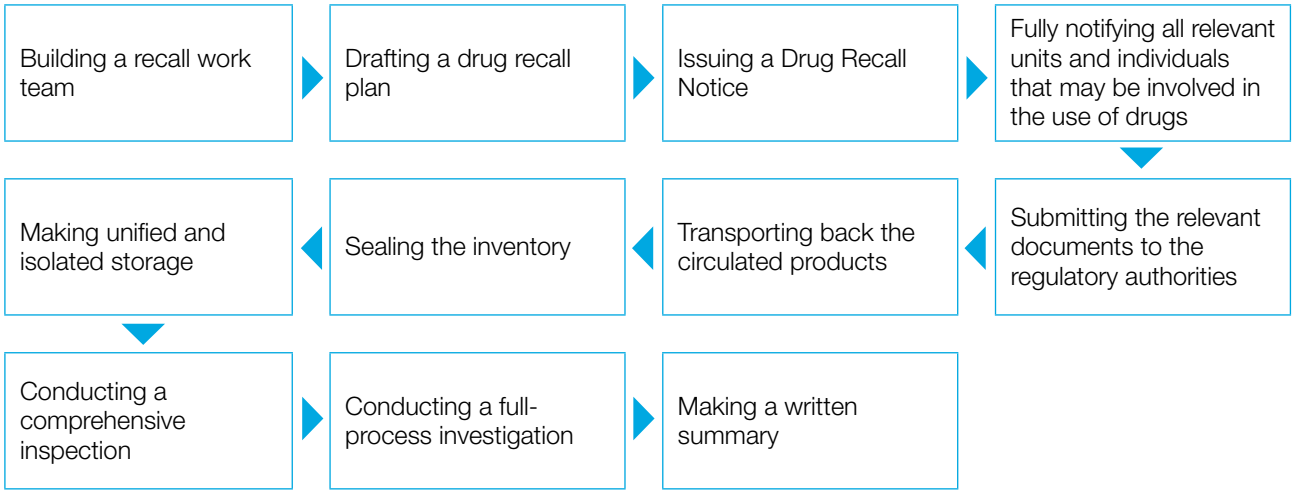


Figure 8 Drug Recall Process

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

4.3 Privacy Protection and Information Security

The Group attaches great importance to privacy rights of consumers and protects the privacy information of customers and other stakeholders in accordance with related laws and regulations as well as applicable contracts. The Group has formed the *Employee Code of Professional Ethics, CMS Code of Conduct, CMS Confidentiality Regulations* and other rules and policies to clarify the privacy and confidentiality principle of the third parties, and require all employees to maintain strict confidentiality of the privacy information of consumers.

The Group has established an authorization mechanism for customer data access, requiring employees to inquire and maintain customer data with limited authorization. unauthorized employees have no access, export or copy any customer information. In addition, the Group has signed confidentiality agreements with all its employees to convey and emphasize the importance of confidentiality duties and the legal consequences of breach, with a view to further enhance employees' awareness of confidentiality.

Meanwhile, the Group sets the *Regulations on Information Security Management* to ensure the implementation of information security work. The Information Technology Management Department exercises comprehensive and systematic management of the information and network environment of the Group through internal document separation, document encryption, regular self-inspection, external professional third-party evaluation and other methods. During the Reporting Period, the Group organised annual information security training for employees to further standardise employees' computer and network operations, upgrade their ability to prevent and respond to information security incidents, and better prevent information security incidents such as leakage of private information.

Besides, the Group explicitly requires the digital pharmacovigilance system supplier and other suppliers who may have access to consumers' privacy information to strictly safeguard the privacy rights of consumers through signing contracts and agreements.

4.4 Improvement of Healthcare Accessibility

The Group attaches great importance to the health needs of Chinese people, and proactively invests in and deploys products globally aimed at meeting relatively large clinical needs, in an effort to provide safe, effective, accessible and affordable treatment options for patients in different regions, of different ages and suffering from different diseases. In addition, the Group proactively disseminates health knowledge and improve public health awareness in various approaches, such as publishing general science articles of disease knowledge and setting up the "Disease Science Popularization" column through official channels of the Group, making contribution to improving the accessibility of disease knowledge to the public.

The Group's existing products cover multiple specialist fields, including cardio-cerebrovascular, digestion, ophthalmology, dermatology, paediatrics, etc., all of which have sufficient evidence-based medical evidence, good reputation, relatively low daily treatment cost and high cost-effectiveness and are sold in China after fair pricing through regional bidding procedures. In addition, as of 31 December 2021, among the Group's 9 core products available in market, 7 were included in the National Reimbursement Drug List and 2 were included in National Essential Drug List, which effectively relieved the burden on patients and guaranteed fair accessibility for the general public. In the meantime, the Group lays emphasis on the expansion and penetration of the county-level and lower-tier markets, striving to improve the accessibility of medical products in the entire country and economically backward areas. As of 31 December 2021, the Group's business covered about 50,000 hospitals/medical institutions and more than 200,000 drugstores in China.

The Group actively deploys clinically needed drugs globally and also pays attention to orphan drugs. As of 31 December 2021, the group had Tetrabenazine Tablets for the rare disease Huntington's Disease. Moreover, capitalizing on its own advantageous resources and capabilities, the Group has successfully deployed nearly 30 innovative pipeline products with differentiated clinical advantages through collaborative innovative research. The New Drug Applications of 3 innovative products had been accepted in China during the Reporting Period, including Diazepam Nasal Spray, Tildrakizumab Solution for Injection, and Methotrexate Injection, Pre-filled Syringe (psoriasis).

Table 9 Innovate Products Whose New Drug Application Has Been Accepted in China

Innovative Product	Main Advantages
Diazepam Nasal Spray	The only FDA-approved spray product for acute repetitive seizures in patients aged 6 and above; once approved in China, it will become a first-aid medicine for epileptic seizures that is safe and convenient to use outside the medical setting and has a very rapid onset of action for Chinese child and adult patients
Tildrakizumab Solution for Injection	It is expected to provide the most cost-effective monoclonal antibody treatment option for patients with moderate to severe plaque psoriasis
Methotrexate Injection, Pre-filled Syringe (Psoriasis)	It is expected to be the first methotrexate pre-filled injection for the treatment of psoriasis by subcutaneous administration in China, fulfilling the medication needs for basic treatment of psoriasis patients. This drug is included in the *Urgently Needed Drug List* in China as an urgently needed clinical drug with short supply.

With a view to speeding up clinical research on innovative products, ensuring the compliance and effectiveness of clinical researches and enabling patients to use more affordable and high-quality innovative drugs as early as possible, the Group has established *Regulations on Clinical Research Management*, clarifying the operation specification in the entire process of clinical trials of drugs, and integrating quality management control in every step of clinical research. Besides, all human clinical trials of the Group have passed the ethical review as required by law and follow the ethical principles in the *Declaration of Helsinki*. Before participating in a clinical trial, all subjects are required to sign the *Informed Consent Form of Subjects* which clearly stipulates that they shall have the right to be informed and the right to choose, and that they can refuse or withdraw from the clinical trial at any time, thereby protecting their rights and interests.

During the Reporting Period, the Group's R&D expenditures was RMB 739.3 million (including capitalized and expensed expenditure), accounting for 8.0% of its turnover. In the future, the Group will further improve clinical efficiency, and deploy more innovative drugs in China and overseas to improve patients' access to innovative drugs with real clinical value.

4.5 Protection of Intellectual Properties Rights

The Group focuses on the protection of independent intellectual property rights and regards intellectual property rights as important corporate assets, including but not limited to trademarks, patents, confidential information, production know-how, etc. The Group has formulated and announced *CMS Intellectual Property Management* Policy in February, 2022 to regulate daily maintenance, risk identification and dispute management of intellectual property rights, so as to build a solid foundation for the management of intellectual property rights. Meanwhile, the Group has created an internal document database of intellectual property rights, covering the Group's trademarks, patents, copyrights, etc.

The Group manages intellectual property rights throughout the product life cycle, and comprehensively investigates, evaluates and analyses potential intellectual property risks in product introduction, research, registration, promotion and sales. In addition, the Group also expressly forbids employees to disclose corporate trade or technical secrets in *CMS Anti-fraud Management Policy*, and opens reporting channels such as email, telephone and official website to the public. If any suspected infringement on intellectual property rights is found, the Legal Department of the Group will protect the Group's legitimate rights and interests by using administrative and judicial ways as appropriate, and document the process of defence.

While protecting its own intellectual property rights, the Group respects and safeguards all intellectual property rights related to the corporate business and the interests of their owners. In strict compliance with relevant laws and regulations, the Group requires all its employees to use trademarks and patents of others for business activities with legal authorization, so as to avoid infringing on the intellectual property rights of others.

5. People-oriented Practice

Based on the concept of "strivers-oriented", the Group regards employees as its most valuable assets. The Group strictly abides by relevant national laws and regulations, and continues to optimise human resource management system and policies concerning employment compliance, employees' rights and interests and occupational health and safety. The Group has established a well-developed human resource management framework to comprehensively support the Group's needs for talent management; meanwhile, by coordinating and guiding the human resource management of each subsidiary from the perspective of the headquarters, the Group ensures smooth development of its overall human resource management.

The Group adheres closely to relevant national laws and regulations and its internal rules and policies in terms of employment, occupational health and safety, and employees' rights and interests, including but not limited to those listed in the following table. During the Reporting Period, the Group did not violate any applicable law and regulation that have significant impact on the Group.

Table 10 Laws and Regulations and CMS' Rules and Policies Related to Responsibilities to Employees

Field	Major laws and regulations	CMS' major rules and policies
Employees' rights and interests	The *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Employment Promotion Law of the People's Republic of China, Regulations on the Implementation of the Labor Contract Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Minimum Wage Provisions, Regulations of the State Council on the Hours of Work of Employees, Special Rules on the Labor Protection of Female Employees,* etc.	*Human Resource Policy, CMS Employee Manual, Rewarding Measures for Internal and External Talent Recommendation, Regulations on Holiday Management, Internal Trainer Management Policy, Provision on Employee Training Process, Personnel Management Policy,* etc.
Employment compliance	The *Special Rules on the Protection of Juvenile Workers, Provisions on the Prohibition of Child Labor, Law of the People's Republic of China on the Protection of Minors,* etc.	*Measures for Recruitment Management, Social Recruitment Practice Manual, Campus Recruitment Practice Manual, Measures for Background Check Management, Personnel Management Policy,* etc.
Occupational health and safety	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, Regulations on Work-Related Injury Insurances, Regulations on Occupational Safety and Health, Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents,* etc.	*Provisions on Production Safety, Employee Health Management Procedure, Fire Safety Management Policy, Regulations on Governing Safety Prevention Responsibility, Emergency Plan, Office Building Emergency Plan, Provisions on Workplace Safety Management,* etc.

5.1 Employment Compliance

5.1.1 Legal and Compliant Employment

The Group strictly abides by national laws and regulations and its internal relevant rules and policies, and sticks to legal and compliant employment. The Group follows the procedures for signing, amending, revoking or terminating the labour contracts with all employees, and highlights that employment relationship must be based on the principles of legality, fairness, honesty, mutual consent and willingness. Moreover, the Group has established *Human Resource Policy, Personnel Management Policy* and *Measures for Background Check Management* to standardise processes of employees' background check, on-boarding, dismission and file management. The *Personnel Management Policy* expressly stipulates "prohibition of child labour/forced labour", requiring the Human Resource Department to ensure that candidates' identities are true and valid and meet legal employment requirement, by means of inquiry, information verification and candidate's confirmation signature during the recruitment process, with an aim to eliminate child labour and forced labour. If any violation such as child labour or forced labour is found, the employment will be invalid, the labour contract will be immediately rescinded, and the payable wages and other remuneration prescribed by law will be paid. In addition, the relevant responsible persons will be punished according to the severity of the circumstances.

During the Reporting Period, the Group employed no child labour or forced labour.

The Group's employment and turnover data in 2021 is shown below:

Table 11 Employment Information

Category	Indicator	Unit	Year 2021
Overall	Total number of employees	Person	5,292
By gender and position	- Number of male employees	Person	2,444
	- Number of female employees	Person	2,848
	- Number of employees in mid-level and senior management	Person	141
	- Number of male employees in mid-level and senior management	Person	97
	- Number of female employees in mid-level and senior management	Person	44
By types of employment	- Number of contracted employees	Person	5,292
	- Number of dispatched employees	Person	0
By age	- Number of employees aged under 30	Person	2,108
	- Number of employees aged 30-50	Person	3,021
	- Number of employees aged over 50	Person	163
By geography	- Number of Mainland China employees	Person	5,244
	- Number of HK, Macao, Taiwan and overseas employees	Person	48

Table 12 Employee Turnover

Category	Indicator	Unit	Year 2021
Overall	Turnover rate of employees	%	17.8
By gender	- Turnover rate of male employees	%	17.8
	- Turnover rate of female employees	%	17.8
By age	- Turnover rate of employees aged under 30	%	22.3
	- Turnover rate of employees aged 30-50	%	15.3
	- Turnover rate of employees aged over 50	%	9.7
By geography	- Turnover rate of Mainland China employees	%	17.9
	- Turnover rate of HK, Macao, Taiwan and overseas employees	%	14.3

5.1.2 Protection of Employees' Rights and Interests

Equal opportunity, anti-discrimination and diversification

The Group adheres to the principles of equal opportunity and anti-discrimination, and strictly observes national laws and regulations to ensure that employees' employment, holidays, working hours, remuneration , incentives, training and promotion are not affected by their race, nationality, ethnicity, region, gender, religion, age, sexual orientation, political faction, marital status, fertility status, disability and other factors. The Company has adopted a Board Diversity Policy to ensure that all board appointments will be based on merit and fully takes diversity into account.

In addition, the Group ensures that female employees enjoy legal rights and interests and receive reasonable care and consideration, and provides convenience for female employees by setting up mother-and-infant rooms and other amenities. *CMS Code of Conduct* provides guidance for all employees including the management, to respect, be kind and cooperate with each other, and to foster a positive, equal, diverse and inclusive working environment together. Furthermore, the Group has established complaint and punishment mechanisms, showing zero tolerance for prejudice, discrimination and harassment.

As of 31 December 2021, female employees accounted for 53.8%, female mid-level and senior managers accounted for 31.2% and female board members accounted for 33.3%.

The Group puts high value on employees' thoughts, practices equal communication, and constantly improves the mutual communication mechanism between employees and the management to keep smooth communication channels and create an open and fair communication environment. The Group encourages employees to communicate with the management through the internal ERP platform, email, and online or face-to-face conversation in a timely and effective manner. To address discrimination, the Group accepts real-name or anonymous whistle-blowing in a variety of ways, and puts in place the *CMS Anti-fraud Management Policy* to clarify provisions related to whistle-blowing channels, handling procedures and whistleblower protection, ensuring that all whistle-blowing are properly handled. The Group keeps strictly confidential whistleblowers' personal information and whistle-blowing materials, and will not disclose whistleblowers' identities without their consent. After receiving, verifying and evaluating tip-offs, the Group will put them on record and initiate investigations, and keep truthful and complete investigation records. The handling result will be notified within the Group and sent to the whistleblower within 3 working days. If the employee being reported against thinks his/her legal rights and interests are infringed, he/she is entitled to appeal to the relevant department of the Company, requesting to solve the problem. The Group also actively communicates with employees in forms of interviews after probation/resignation and regular questionnaire surveys. Meanwhile, the labour unions of the Group's subsidiaries have established employee reception room, management reception day and feedback box, aiming to further guide and support employees to speak up.

During the Reporting Period, the Human Resource Department of the Group conducted a organizational climate survey, which takes employee satisfaction and engagement into consideration, in a bid to fully understand the needs and expectations of employees. Improvement measures will be developed and promoted based on the survey results to further protect employees' rights and interests.

Recruitment

The Group's human resource recruitment plan always matches with the Company's strategic needs for business development. Through regular analysis of existing positions and staffing, sorting of valid human resource information in combination with the regular talent demand feedback from each department, the Group forecasts possible changes in personnel mobility, and develops and adjusts the corresponding recruitment plan to build a sound basis for the talent team building. Aiming to ensure an organized recruitment process, the Group has established a mature human resource introduction and reserve channel combining social recruitment and campus recruitment, with systematic measures and manuals on internal management as enhancement, such as *CMS Recruitment Management Measures, Social Recruitment Practice Manual, Measures for Background Check Management, Campus Recruitment Practice Manual and Rewarding Measures for Internal* and *External Talent Recommendation,*.

In order to further expand the sources of talents for certain core positions, on the basis of common social recruitment channels (such as professional human resource website and head hunters), the Group develops the channel for recommending excellent talents supported by an attractive incentive mechanism to motivate all employees and others to recommend suitable talents.

Campus recruitment is an important source of the Group's talent pool. By constantly exploring diversified campus recruitment methods, the Group strengthens its association and connection with colleges and universities to build a sustainable professionals reserve pool. During the Reporting Period, the Group vigorously carried out programs for trainees and interns, held more than 200 online/offline campus recruitment seminars across the country and issued offers to over 400 graduates.

Working Hours

The Group strictly forbids forced labour and implements standard working hours according to laws and regulations. Meanwhile, employees may reasonably arrange working and leisure time according to their job content and the work plan of their departments, so as to form a more efficient working system. In addition, as stipulated in the *CMS Employee Manual*, employees who work overtime as demanded and with the Company's approval will be compensated. Meanwhile, all employees are entitled to statutory holidays and paid leave according to law, and their posts will be 100% kept during the leave.

Remuneration

The Group's remuneration system is inclined to strivers. The employees' remuneration and benefits depend on the Company's performance and employees' own performance. The Human Resource Department of the Group dynamically reviews the employees' remuneration level annually in reference to the reports of professional external consultants to ensure that employees receive fair and competitive salaries and remuneration in the industry. Meanwhile, the department constantly implements and optimises person-post matching certification and level-of-position review to maintain a fair and effective remuneration evaluation system and adjustment rules of the Company.

According to the strategic planning and deployment, the Group establishes the evaluation basis for performance appraisal and incentive system by decoding and dividing strategies to each department. Short-term, medium-term and long-term multi-level incentive systems have been established, and quarterly routine performance review is carried out to ensure fair and effective performance management and incentives. The result of performance appraisal is linked up with the bonus of employees, and the related result will be synchronously sent to employees via the Group's online digital tool immediately after confirmation. In case of any disagreement, the employee can raise an appeal within 5 working days upon receipt of the appraisal result, and the Human Resource Department will organize independent interviews, double check the performance appraisal result, and send the review result to the employee in time. In addition, the Group further improves the honour and reward system, and continues to energize the organization.

Training

The Group organizes diversified training activities to systematically improve the professional competence of employees and promote mutual development of the Company and employees. The Group has established the *Internal Trainer Management Policy* and *Provision on Employee Training Process* to support the implementation and management of training plans.

The Group has set up a dedicated training base in Pingshan, Shenzhen, which provides employees a good centralized training environment and atmosphere. In order to further improve the accessibility and convenience of training, the Group makes full use of digital tools to make available on-site, telephone-access, live streaming, and other ways for employees to participate in training courses. The Group is also active in constructing a digital training management system in an attempt to manage all kinds of training plans, appraisal records, suggestions and feedback systematically and efficiently, so as to further boost its training management efficiency. Moreover, the Group continually improves and leverages internal instructors and course resources, proactively expands cooperation with professional training institutions, and establishes pools with abundant resources of instructors, courses and training institutions, to further underpin the foundation of the Group's long-term employee training.

The Group constantly optimise the "Navigation" training system for full coverage of corporate strategy, corporate culture, professional skill and knowledge, job qualification assessment, management skill and leadership development, policy and regulation, etc. Through the combination of internal and external training, the Group systematically helps all employees improve their capability comprehensively. Besides, in order to better meet the business development needs, the Group actively takes advantage of its own training channels and advantageous resources to periodically carry out targeted professional training for key positions, and also provides financial support for employees in key positions to obtain relevant professional certification.

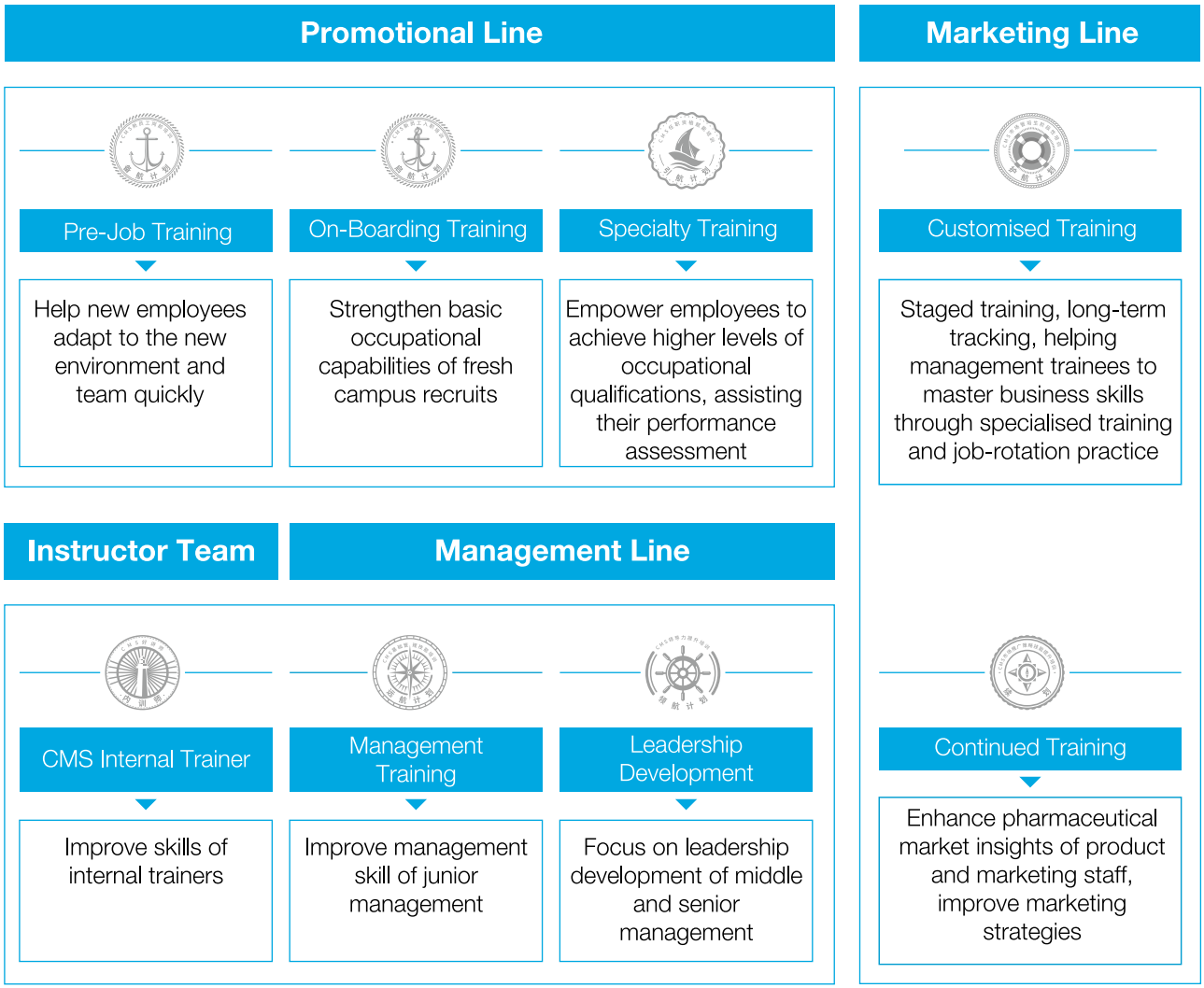


Figure 9 "Navigation" Training System

Table 13 Employee Training Data

	Unit	Year 2021
Total employees training expenditure	Million RMB	6.3
Training coverage of employees	%	73.2
- Training coverage of general employees	%	97.2
- Training coverage of mid-level and senior management	%	2.8
- Training coverage of male employees	%	48.6
- Training coverage of female employees	%	51.4
Employees training duration per capita	Hour	18.0
- Training duration per capita for general employees	Hour	18.2
- Training duration per capita for mid-level and senior management	Hour	12.3
- Training duration per capita for male employees	Hour	19.0
- Training duration per capita for female employees	Hour	17.2

Promotion

The Group adheres to the promotion mechanism that was oriented by competence and integrity and follows the talent promotion principle of "internal selection, step-by-step promotion, classified training, spiral rise, and anomalous promotion in special period". In accordance with the guidelines and requirements of the promotion evaluation mechanism and the performance management system, the Group matches different positions with clear development paths. Meanwhile, the Group puts in place a promotion application system, by which employees can apply for promotion certification on their own initiative. Successful promotion certification will be made public regularly in the form of an appointment and removal announcement. Any employee objecting to the certification process or results may appeal to the Human Resource Management Department, and the latter will make further verification and feedback according to the facts to ensure fair, impartial and open promotion channels and opportunities.

Dismissal

Employee dismissal within the Group is subject to the *Human Resource Policy, Personnel Management Policy* and other internal management regulations. The Human Resource Management Department assists employees who leave the Group in handling transference of social insurance, files, and registered permanent residence as well as other relevant formalities. In addition, the Group holds a demission interview with all quitting employees to figure out their reasons for leaving, analyse specific problems and generate internal improvement plans, in a bid to further optimise the internal human resource management.

5.2 Employees Care

5.2.1 Employees' Health and Safety

The Group attaches great importance to the health and safety of its employees, putting in place *Provisions on Production Safety, Provisions on Fire Safety Management, Provisions on Workplace Safety Management, Employee Health Management Procedure, Regulations on Governing Safety Prevention Responsibility, Emergency Plan, Office Building Emergency Plan* and other safety regulations and management procedures. Moreover, the Group constantly improves the employee occupational health and safety system with production safety and occupational health as the core to create a healthy, safe and agreeable working environment for employees.

Safety Record

Occupational safety and health documents for employees are established; safety assessment of storage and use of hazardous chemicals is completed timely and reported to the safety supervision authority

Health Check

Annual health check is provided for all employees

Safety Protection

Production safety bulletin boards are set up; safety warning signs and first-aid kits are reasonably set, and employees at posts involving health and safety risk are supplied with appropriate personal protective devices such as earplugs, protective gloves, activated carbon anti-toxic masks and respirators; the placement, use and disposal of hazardous chemicals are strictly managed and supervised

Reassuring Fight against Pandemic

External professional institutions are engaged to conduct overall disinfection of the Company's offices according to the development of the pandemic, employees are encouraged and organised to receive COVID-19 vaccines, gathering activities are reported in a timely manner, and consultation service and information sharing on pandemic prevention and control are provided

Safety Training

A comprehensive production safety training system has been set up, which forms a training model with the combination of teaching and assessment by experts from the Ministry of Emergency Management and internal experts, and employees at special posts are required to attend internal and external professional training and assessment on a regular basis, and to work with appropriate license

Emotional Care

Employees are provided with recreational places and various leisure activities to relieve their work stress; new employee interviews and learning and development partners are arranged to understand the adaptation and emotional needs of new employees

Safety Inspection

The relevant subsidiaries set up leading groups for production safety inspection, implement production safety responsibility system, organise the "Production Safety Month" campaign, conduct the assessment of safety production performances and safety production rewards and punishment, carry out regular assessments of major hazard risk in factories and offices, make production safety inspections before and after holidays, and monthly safety inspections of the workplace to prevent accidents

Daily Maintenance

Employees' health and safety are protected starting from daily trifles, for example: conducting maintenance and potential risk identification of corporate vehicles as scheduled, providing regular physical examination of drivers, timely changing drinking water filters, regularly cleaning and disinfecting the central air conditioning and carpets, regularly exterminating insects and rats, and optimising access control equipment to safeguard the safety of the Group's employees and property

Safety Drills

During the Reporting Period, the Shenzhen subsidiary and Tianjin subsidiary of the Group worked with relevant property management companies to conduct safety and fire drills separately, the Hunan subsidiary conducted emergency drills for safety production and fire proof, and the Hebei subsidiary conducted emergency drill for hazardous waste leakage and ethanol spill accident

Figure 10 Occupational Health and Safety System

The Group's employee health and safety data in 2021 is shown below:

Table 14 Employee Health and Safety Data

	Unit	Year 2021
Working days lost due to work-related injuries	Day	375
Number of work-related fatalities	Person	0
Proportion of work-related fatalities	%	0
Proportion of employees with occupational health check benefit	%	100

5.2.2 Employee Benefits

The Group provides employees with five statutory social insurance schemes (basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance) and the housing provident fund in strict accordance with national regulations. Besides, the Group continuously optimises its employee relationship management by actively planning employee activities and providing caring benefits to enhance organizational cohesion. During the Reporting Period, comprehensive employee benefits were provided to our staff, included but were not limited to:

- ✓ Providing allowances to fund employees' round trips for family visit once a year;
- ✓ Providing Taikang group accident insurance to employees;
- ✓ Implementing flexible working hours to provide convenience for employees to balance their work and life;
- ✓ Providing high-quality health check to help employees understand their health conditions;
- ✓ Setting a gym and cooperating with big sports venues for free use by employees, encouraging them to exercise;
- ✓ Setting up an employee book bar, and subscribing to newspapers and books for free reading and using by employees;
- ✓ Setting up an employee canteen to provide a variety of free afternoon refreshments and overtime dinners;
- ✓ Establishing a culture and sports association and multiple branches including badminton, swimming, basketball and yoga branches to regularly organise activities to enrich employees' lives;
- ✓ Appropriating special funds to encourage team-building activities, enhancing friendships between employees;
- ✓ Setting up mother-and-child rooms to provide convenience for lactating employees;
- ✓ Providing festival gifts, benefits and blessings.

6. Cooperation and Mutual Benefit

The Group pays high attention to the supply chain management, strictly abides by relevant national and local laws and regulations, and establishes a comprehensive system of internal supply chain management for a commitment to efficiently cooperate with the upstream and downstream supply chain enterprises to achieve win-win results, reducing procurement risks and protect the product quality and safety.

Moreover, to jointly build a green supply chain, the Group actively takes a variety of measures to encourage and advocate compliance operation, environmental protection and social responsibilities among its domestic and overseas supply-chain partners, and strengthen the identification, supervision and control of environmental and social risks in each segment of the supply chain, in order to make progress together with upstream and downstream partners and contribute to the sustainable development of the supply chain.

Table 15 Laws and Regulations and CMS' Rules and Policies Related to Supply Chain Management

Major laws and regulations	CMS' major rules and policies
The Drug Administration Law of the People's Republic of China, Good Supply Practice for Pharmaceutical Products, Good Manufacture Practice of Pharmaceutical Products, Administrative Measures for the Import of Drugs, Provisions for Supervision of Circulation of Pharmaceuticals, Civil Code of the People's Republic of China, Company Law of the People's Republic of China, Customs Law of the People's Republic of China, etc.	*Regulations on First-time Supplier Qualification Review, Regulations on First-time Variety Review, Operation Provisions on Internal Quality Audit, Regulations on Drug Procurement, Provisions for Material Supplier Management, Operation Procedure of Material Supplier Evaluation, Provisions for Material Procurement, Regulations on Purchaser' Qualification Review, Operation Procedures on Purchaser Qualification Review, Provisions on Management of Low Value Consumables, Admission and Review System for Commercial Partners, Admission and Evaluation System for Carriers,* etc.

6.1 Supply Chain Management

The Group adheres to a strict admission for its supplies and distributors, and applies the regular review mechanism of its supply chain partners. In addition, the Group actively builds long-term cooperative relationships with its partners, lays a foundation for stable and efficient two-way communications and mutual trusts with them by phone, e-mails and exchange visits, and achieves common progress and win-win cooperation through mutual supervision and experience sharing.

6.1.1 Supplier Management

The Group has established the *Regulations on First-time Supplier Qualification Review, Operation Provisions on Internal Quality Audit, Regulations on Drug Procurement, Provisions for Material Supplier Management, Operation Procedure of Material Supplier Evaluation, Provisions for Material Procurement, Provisions on Management of Low Value Consumables* and other internal regulations and policies to guide and standardize the suppliers selection and monitoring, the procurement and other processes.

The drugs that the Group promotes and sells has been introduced through asset purchase or long-term sales agreement to acquire their related products rights in specified regions, and the production is mainly conducted by the original or entrusted manufacturers. Therefore, the Group has sustained long-term and stable strategic relations with upstream suppliers. Moreover, Shenzhen Kangzhe, a business entity in the Group which is mainly responsible for promoting and selling drugs, is certified as an advanced "Authorized Economic Operator (AEO)" by the customs, representing the high-level general supply chain management as well as the excellent internal governance and trade safety control.

The Group has formulated strict admission criteria for its suppliers and examines several aspects of the supplier, including but not limited to company scale, company's history, reputation in the industry and competitiveness, qualifications, production conditions, product category, product quality, environmental protection and social responsibility, to ensure that qualified and quality-reliable products are purchased from enterprises that are legally qualified and take corporate responsibility.

Furthermore, the Group comprehensively reviews the completeness, truthfulness and legal validity of the enterprise's profile, and organizes a field inspection when necessary to evaluate the supplier's quality management system. Once a supplier is selected, the Group will sign a long-term supply agreement with it and dynamically conduct an annual matching evaluation of the supplier's medium- and long-term capability to ensure that the supplier's capacity and product quality meet the Group's demands, thus reduce the terminal risk of the supply chain. Moreover, the Group organizes the supplier quality review at least once a year, establishes the relevant review archives and forms the List of Qualified Suppliers. In addition, the Group uploads the information of its suppliers to a digital platform for systematic management, and the system will issue an alert before the qualification or license is about to expire. If any supplier fails to provide valid supplementary information in time, it will be locked and the cooperation with it will be suspended compulsorily for further prevention and control of supply chain management risks.

The Group actively and closely communicates with suppliers and purchases on demand. For imported drug products, including the firstly imported drugs, biological products, products of standard change or manufacture process alteration and when the company deems necessary, strict inspections are carried out by official professional institutions in accordance with the requirements of national regulations and Import inspection Report shall be issued. Once the imported drug products ans domestic drug products arrive, the Quality Management Department of the Group conducts the inspection as per GSP requirements and examines the inspection reports to guarantee that the products meet the drug standards approved by the national authorities, and takes records in the digital purchasing archives in time.

Once any quality issue is found, the Group will immediately provide feedback to its supplier, urges the supplier to make corrections and gives necessary supports. If any supplier fails to pass the sampling inspection of its drugs by the drug regulatory authorities, has any major quality problem, is ordered to recall its drugs, or has a poor reputation for quality, etc., the Group's Quality Management Department will pay a field visit focusing on whether the supplier's quality management system is sound, the reason for the quality problem and whether the corrective measure is effective, and will make a risk assessment. For unqualified suppliers, the Group has established the relevant exit mechanism to ensure the product quality above the baseline.

All production material suppliers are selected as per *Provisions for Material Suppliers Management*, and their scales, qualifications, states of operations, production capacities, quality management, conditions of carriage, etc. are reviewed in detail, with the *Manufacturer Questionnaire* distributed in the preliminary supplier screening stage for more efficient communications and decision-making. In addition, the Group also selects cost-effective material suppliers through open and fair biddings. Before engaging a supplier, the Quality Management Department and other relevant departments will jointly conduct comprehensive qualification review and on-site quality audit, and inspect the samples, and a small batch trial production will be conducted when necessary. Only suppliers who have passed the full review are eligible to be included the Group's qualified supplier list. According to the degree of importance of materials and the results of quality assessment, the Group implements hierarchical management to qualified suppliers, and maintains at least two qualified suppliers for any production material to ensure the supply of materials in emergency. The Group prioritizes the engagement with those suppliers with the higher assessment scores. Furthermore, the Group updates the list of qualified suppliers in time by annually reviewing the overall quality of the goods supplied; and additionally performs on-site audit of the production material suppliers who have a significant impact on drug quality and safety at least once a year for a further guarantee of the stable supply of materials and the Group's production quality.

If the materials provided by a qualified supplier do not meet the requirements, the Group will first re-inspect the samples to eliminate the problems in the inspection process. If the sample fails the re-inspection, a non-conformity report will be issued and sent to the supplier in time, and the supplier will be notified that the unqualified goods will be returned. Supplier who fails to meet the Group's requirements twice a year will be disqualified. If goods with any severe defect or significant quality risks are found, the purchasing will be suspended.

100% of the Group's finished products and materials suppliers are managed in accordance with above standards. During the Reporting Period, there was no significant product supply delay from the Group's suppliers.

The Group's suppliers data in 2021 is shown below:

Table 16 Quantity of Suppliers

	Unit	**Year 2021**
Total number of suppliers	Number	151
- Number of Mainland China suppliers	Number	98
- Number of HK, Macao, Taiwan and overseas suppliers	Number	53

6.1.2 Distributor Management

The Group has established the *Admission and Review System for Commercial Partners, Regulations on Carrier Admission and Appraisal, Regulations on Purchaser' Qualification Review, Operation Procedures on Purchaser Qualification Review,* and other regulations and policies to support distributor management. The Group prioritizes distributors that are Technology Asset Protection Association (TAPA) certified, GSP compliant, socially responsible and reputable through all-round appraisal and examination of distributors in terms of enterprise qualification, warehousing and distribution capacities, staffing, operations management, channel coverage, responsiveness, reputation in the industry, and dedication to environmental protection, to ensure product quality during the distribution process, and minimise the potential impacts of goods circulation on the surroundings. Moreover, the Group keeps the distributors aware of its series of requirements and standard provisions related to social responsibility to further maintain a sustainable drug circulation system.

6.2 Sustainable Development of Supply Chain

The Group aims to work with its upstream and downstream partners in an attempt to build a green and efficient supply chain system. While strictly controlling quality and safety, the Group makes all efforts to identify, monitor and control the environmental and social responsibility risks in the three parts of the supply chain, namely supplier selection, procurement and production, and distribution, propelling the sustainable and green development of supply chain.

For potential risks in each part of the supply chain, including social and environmental risks such as corruption, bribery, unfair competition, illegal operation, inconformity to standard of products or raw materials, pollution of transportation process to the environment, the Group has formulated corresponding prevention and control measures, including but not limited to the followings:

Table 17 Abstract of Environmental and Social Risks Prevention and Control Measures in Supply Chain

Supplier selection	• Adhering to the principle of openness, impartiality and fairness, preventing and controlling possible corruption risks in the bidding process with participation of multiple departments • Including human rights, environmental and social factors into the supplier review; encouraging and tending to choose suppliers advocating the green environmental protection concept or with relevant qualifications, including but not limited to: ISO 14000, ISO 45001, SA8000, AEO, TAPA, etc. • If the candidates are on a par, the one in closer proximity will be preferred for more convenient transportation, to reduce the potential pollution to the environment during the shipment
Procurement and production	• Signing agreement with all suppliers, clearly stating quality credibility and supply integrity in the agreement, in order to manage supply chain integrity • Stating anti-bribery and anti-corruption requirements in the supplier's contract, and requiring suppliers to comply with the local regulatory requirements for operations and production, so as to prevent relevant social risks • Initiate the signing of *Proposal for Suppliers* in order to advocate suppliers to comply with compliance operation, business ethics, human rights and labour standards, protect the environment and respect culture and community • In view of the possible impact of packaging materials used in the production process on product quality and environmental pollution risk, suppliers are required to use packaging materials in compliance with the environmental protection standards. The inner packaging in contact with drugs is required to be at least the food-grade packaging to ensure product safety and realize green packaging
Distribution	• Preferring large distributors with comprehensive distribution channels coverage and dedication to environmental protection so as to reduce the negative environmental impact in logistics • Making available *Standard for Ethics and Compliance, Third Party Compliance Policy, Basic Code for Interactions with Medical Personnel, Medical Institutions and Non-profit Organisations, Self-Testification of Third Party Compliance,* and other provisions, to ensure that partners are aware of and comply with the Group's requirements and criteria for anti-corruption, fair competition, intellectual property protection, data privacy, employment practice, environment, health and safety, encouraging distributors to take social responsibility during the course of the contract

The Group has also made available multiple feedback channels to suppliers and distributors such as email, telephone, and face-to-face communication. Besides, the Group set up a new whistleblowing channel of anti-fraud control via its official website during the Reporting Period. Any incompliant act such as bribery and corruption, unfair competition, disclosure of the Company's trade secret or know-how, and abuse of power of any employee of the Group can be reported via the website. This further facilitates the open communication between the parties and risk identification in the supply chain management. In the meantime, the Group is active in promoting the signing of the *Proposal* for *Suppliers*. During the Reporting Period, more than 50% of the suppliers have signed the *Proposal for Suppliers* (as of 31 December 2021, the total number of the Group's suppliers is 151), this program is still underway.

Table 18 Abstract of *Proposal for Suppliers*

Field	Abstract
Compliance operation and business ethics	• Complying with applicable laws, regulations, standards, guidelines and criteria, including but not limited to the GSP, advertising law and patent law, etc. • Providing high-quality, safe and effective products and services that comply with applicable laws, regulations, quality requirements and standards • Resolutely resisting on bid rigging, bidding collusion, acceptance of kickbacks and other unfair competition, and keeping zero tolerance for any form of corruption, extortion or bribery • Valuing business partners' privacy and confidential information, and ensuring no data or intellectual property right is abused
Human rights and labour standards	• Respecting the protection of internationally recognized human rights and avoiding human rights violation • Avoiding all forms of child labour, forced and compulsory labour • Respecting personal dignity, privacy and rights, abiding by the maximum working hours stipulated by relevant laws, and providing fair remuneration • Promoting equal opportunity and treatment of employees, and rejecting discrimination or harassment for any reason • Complying with laws and standards related to occupational health and safety, and providing safe working environment
Environmental protection	• Complying with environmental laws and standards • Establishing a reasonable internal environmental management system
Community culture	• Facilitating the economic and social development of the community • Ensuring the full respect for the human rights, dignity, culture, and the survival by reliance on natural resources

7. Environmental Protection

In compliance with the concept of green development, the Group is committed to sustaining environmental protection actions in all parts of production and operations, encouraging its subsidiaries related to the pharmaceutical production business, agriculture and livestock business, sales and marketing business, and others to enhance their contribution to environmental protection. All parties across the Group continuously improve the environment management system, keep increasing the resources utilisation efficiency, actively manage and control the impact of production and operations on the surrounding environment, and persistently fulfil the corporate social responsibility for ecological environment protection, in an effort to achieve a common sustainable development between the enterprise and the environment.

The Group's highest governance organisation for environmental management is the Board of Directors. As assisted by the sub-committee, ESG Committee, the Board of Directors oversees the management guidelines, policies and structures in connection with environmental protection, guarantees the compliance of the Group's environmental performance with legal and regulatory requirements. It also identifies ESG related risks and opportunities, and joins hands with the Audit Department in risk management and solution. The ESG Working Group ensures the execution of environmental management activities, and develops the specific environmental management work plans. In addition, the ESG Working Group conducts regular statistics and analysis of the environmental performance, sets environmental goal, tracks its accomplishment progress, and reports that to the ESG Committee on a regular basis. During the Reporting Period, the Group has newly set environmental targets related to the hazardous waste intensity, non-hazardous waste, electricity use and water consumption, which have been approved by the Board of Directors.

During the Reporting Period, the Group's Audit Department conducted a comprehensive environmental internal audit on Kangzhe Hunan, its pharmaceutical production subsidiary, focusing on environmental issues such as pollutant emission management, resource management, ecological protection, and climate change risk responses, etc, and formulated a *Special Environmental Audit Report* to elaborate the environmental governance and gave risk alerts in details. The Group's Audit Department worked with the relevant department heads to assess each risk point and deliver an improvement plan and submit it to the management for review and approval, and then continuously followed up on the implementation of the corrections to ensure standardized environmental governance and prevent and control compliance risks. Hunan Agriculture and Livestock is subject to unscheduled relevant enforcement inspection by local environmental protection authority. The local agricultural quality and safety authority and the green food office periodically inspect the agricultural quality and the environment of plantation base. During the Reporting Period, no major environmental issue was found in all the inspections.

The Group strictly adheres to the requirements of various laws and regulations and CMS' Rules and Policies on environmental protection, including but not limited to:

Table 19 Environmental Protection-related Laws and Regulations and CMS' Rules and Policies

Field	Major laws and regulations	CMS' major rules and policies
Environmental protection	*Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on Environmental Impact Assessment,* etc.	*Integrated Emergency Response Plan for Environmental Incidents, Regulations on Environmental Protection, Regulations on Sanitation Management in Plant Area*
Emission control	*Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution, Emission Control Standard of Volatile Organic Compounds for Industrial Enterprises, Discharge Standard of Pollutants for Livestock and Poultry Breeding, Emission Standard of Air Pollutants for Boiler, Integrated Wastewater Discharge Standard, Wastewater Quality Standards for Discharge to Municipal Sewers, Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants, Emission Standard for Industrial Enterprises Noise at Boundary, Standard for Pollution Control on the Storage and Disposal Site of General Industrial Solid Wastes, Standard for Pollution Control on Hazardous Waste Storage, Administrative Measures for Hazardous Waste Transfer, Regulation on the Administration of Permitting of Pollutant Discharges,* etc.	*Regulations of Boilers Management, Operation Regulation of Exhaust Gas, Exhaust Gas Emission Management Procedures, Operation Regulation of Exhaust Gas, Wastewater Management Procedures, Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility, Regulations on Hazardous Waste, Regulations on Hazardous Chemicals, Solid Waste Management Procedures, Provisions on Quality-Control Laboratory Waste Management*
Resource management	*Law of the People's Republic of China on Conserving Energy, Law of the People's Republic of China on Promoting Clean Production, Circular Economy Promotion Law of the People's Republic of China,* etc.	*Management Regulations on Energy Conservation and Consumption Reduction, Regulations on Green Agriculture and Livestock, Regulations on Resource Conservation Management, Vehicle Management Regulations, Regulations on Material Distribution*

7.1 Emission Control

The Group's business mainly includes pharmaceutical promotion and marketing business, pharmaceutical production business, and agriculture and livestock business. Among them, the pharmaceutical promotion and marketing business is the main business. The 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") (which did not carry out any production during the Reporting Period), and Lengshuijiang Kangzhe Pharmaceutical Co., Ltd. ("Lengshuijiang Kangzhe") (which was in the trial production stage during the Reporting Period and was not officially put into use yet). The Group has small-scale pharmaceutical production business. During the Reporting Period, the sale of self-produced products only accounted for around 2.9% of the Group's turnover in the case that all medicines were directly sold by the Group. The agriculture and livestock business is 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 for internal consumption and did not contribute 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. The Company and its subsidiaries have formulated a series of internal management regulations such as *Regulations on Environmental Protection, Operation Regulation of Exhaust Gas, Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility,* etc., covering the requirements for the management of emissions in the production and operation process, including exhaust gas, wastewater, solid waste, and noise pollution; a relatively comprehensive management system has been formed. During the Reporting Period, the Group updated the *Regulations on Environmental Protection*, which further clarified the requirements for the management of clean production, conservation of natural resources, and responses to climate change.

During the Reporting Period, the Group did not have any significant pollution incident.

7.1.1 Water Pollutant Management

The Company and its subsidiaries strictly comply with national and local laws and regulations, and have formulated and abided by internal management regulations such as *Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility* and *Wastewater Management Procedures* to standardize management of wastewater discharge. The wastewater produced by the Group mainly includes domestic and production wastewater, of which domestic wastewater mainly enters the urban sewage network through sewage pipes and its discharge is reduced mainly through water conservation measures in daily office activities; production wastewater is discharged after reasonable treatment till it meets the standard. The Group's management measures for wastewater include but are not limited to:

Measures to control domestic wastewater in office areas	Measures to control wastewater in pharmaceutical production areas	Measures to control wastewater in agricultural and livestock areas
✓ Issuing *Proposal for Energy Conservation and Emission Reduction in Offices*, setting up bulletin boards for promoting environmental protection and resource conservation to raise the awareness of all employees on water conservation; ✓ Strengthening the inspection of pantries and washrooms, upgrading some aged automatic flush valves, and replacing water-saving taps; ✓ Conducting commissioning of auto flush facilities in office areas to shorten the automatic flushing time.	✓ After production wastewater treatment by the self-built integrated wastewater treatment station, the wastewater that meets regulatory standards is discharged into the municipal network and finally flows into the municipal wastewater treatment plant; ✓ During the Reporting Period, the new wastewater treatment station of the Kangzhe Hunan was put into service to significantly increase the daily treatment capacity; additionally, the coagulation and sedimentation system was added at the end of the new wastewater treatment system to further eliminate suspended solids in water and improve outgoing water quality.	✓ The manure water from agricultural and livestock farms is collected through sedimentation ponds and then made into organic fertilizers to achieve the purpose of recycling; ✓ Plants such as turf are grown around the animal enclosure and park to absorb the animal manure water left outdoors.

Table 20 Wastewater and Pollutant Components Data

	Unit	Year 2021
Wastewater	m^3	84,294.4
Wastewater Intensity	m^3/million RMB	9.13
Ammonia Nitrogen (NH_3-N)	Ton	0.2
Chemical Oxygen Demand (COD)	Ton	2.3

7.1.2 Air Pollutant Management

The Company and its subsidiaries have formulated internal management policies such as *Regulations of Boiler Management, Operation Regulation of Exhaust Gas*, and *Exhaust Gas Emission Management Procedures* to strengthen the management of air pollutant emission and ensure that exhaust gas emission complies with the requirements of national and local laws and regulations. During the Reporting Period, most exhaust gas of the Group was from the pharmaceutical production business. The Company and its subsidiaries took active measures to minimize the negative impact of exhaust gas emission from pharmaceutical production on the environment:

Kangzhe Hunan	Hebei Xili
✓ Long-term use of natural gas-fueled boilers; ✓ Boiler exhaust gas is first adsorbed by activated carbon to remove nitrogen oxides, sulfur oxides and particulate matter from the smoke, then wet-sprayed, and discharged at a specified altitude after reaching the standard. The wastewater generated after the wet-spray enters the self-built sewage treatment station of factories for treatment and recycling; ✓ The cutting and shredding equipment for "pre-treatment" in the Chinese medicine extraction workshop was upgraded in 2021, with a built-in dust collector, and the large whirlwind bag-type dust removers were added to allow dust and exhaust gas to meet the standard and be discharged at a high altitude after multi-stage treatment; ✓ A new sewage treatment station was officially put into use in 2021, adopting a deodorization system to treat exhaust gas; ✓ A third-party professional inspection agency is engaged to sample the organized exhaust gas emitted by steam boilers on a quarterly basis. During the Reporting Period, monitoring results showed that all exhaust gas emissions met the specified emission limits for atmospheric pollutants.	✓ The environment-friendly alcohol-based liquid fuel is used for boilers; ✓ Insisting on purchasing quality fuel to reduce the emission of exhaust pollutants; ✓ A third-party professional inspection institute is commissioned to sample and test the organized exhaust gas emitted by steam boilers on a quarterly basis. During the Reporting Period, monitoring results showed that exhaust gas emissions met the specified emission limits for atmospheric pollutants; ✓ The exhaust gas equipment in the wastewater treatment station was rectified and attached with an exhaust pipe, the secondary activated carbon adsorption treatment device was installed in the laboratory and passed the acceptance inspection of environmental protection facilities.

Table 21 Air Pollutant Emission Data

	Unit	Year 2021
Sulfur Dioxide (SO_2)	Kg	103.2
Nitrogen Oxide (NO_x)	Kg	1,693.7
Particulate Matter (PM)	Kg	143.3

7.1.3 Noise Pollution Management

In accordance with national and local laws and regulations, the Company and its subsidiaries exercise strict control over noise generated during the production and operation process, monitor noise regularly, and require susceptible employees to wear protection equipment. Kangzhe Hunan used the horizontal centrifuges in its oral liquid powder workshop to reduce noise, set noise barriers outside the equipment room, and added sound insulation cotton inside to further reduce the impact of equipment noise on employees and surrounding residents.

During the Reporting Period, the noise monitoring results of the Group met the requirements and did not have a significant negative impact on the staff's occupational health and the local ecological environment.

7.1.4 Solid Waste Management

The Group have formulated internal management regulations such as *Solid Waste Management Procedures, Regulations on Hazardous Waste, Regulations on Hazardous Chemicals,* and *Provisions on Quality-Control Laboratory Waste Management* to control hazardous and non-hazardous waste by category. Hazardous waste is under strict management and transferred to qualified third parties for treatment, domestic waste is classified for treatment, and non-hazardous waste is recovered or recycled, thereby comprehensive waste reduction is achieved. In order to manage and control the generation of solid waste effectively, the Group is committed to reducing the hazardous waste intensity by at least 5%, and the non-hazardous waste intensity by at least 2% by 2023 compared to 2020.

Measures to control non-hazardous waste	
Office areas	✓ Issuing the *Proposal for Energy Conservation and Emission Reduction in Offices*, advocating the reuse of recyclable supplies, encouraging paperless office as the preferred choice, and reducing the use of disposable office supplies, promotional items, etc. ✓ Increasing the number of microwave ovens in canteens, encouraging employees to bring their own lunch boxes for dining and use less disposable tableware, and getting food from canteens as per the need; ✓ Encouraging the classification of garbage: non-recyclable garbage is regularly and centrally disposed of by the building property company; recyclable garbage such as paper, metal, plastic, and glass is recovered or recycled.
Pharmaceutical production areas	✓ Chinese herb residues are mainly particle filter residues (lignin) and a small amount of insoluble extractives, which are non-hazardous solid waste. The Company transports the residues to the compost workshop in Hunan Agriculture and Livestock as one of the ingredients for making organic fertilizers; the subsidiary Hunan Agriculture and Livestock has set up storage tanks to receive the waste medicine residues from Kangzhe Hunan, which will ferment after mixing with organic fertilizers in a certain proportion to produce efficient fertilizers for crops, realizing the ecologic and organic recycling of non-hazardous waste; ✓ Recyclable waste such as waste paper, waste cartons, and waste plastic buckets produced by various workshops and departments is classified and collected for rational recycling or disposal; ✓ The operating procedure is strictly carried out in the wastewater treatment station to control impurities. In addition, oil separation tanks and septic tanks are established for primary treatment of the sludge.
Agriculture and livestock areas	✓ Adopting automatic collection devices to collect animal excrement and making it into organic fertilizers for crops via biological fermentation.

Measures to control hazardous waste
Hazardous waste is mainly from the inspection at laboratories in the pharmaceutical production business: ✓ Strictly complying with the management requirements for the use of related chemicals reagents, ordering and using according to the needs; ✓ Standardizing the operation process of inspection and testing, and minimizing the production of chemical waste residue and waste liquor; ✓ The used chemical reagent or expired chemical reagent are collected and stored in the temporary hazardous waste storage room in time, and a third-party specialized disposal company for hazardous waste is engaged to transfer and dispose of those hazardous wastes on a regular basis.

Table 22 Solid Waste Data

	Unit	**Year 2021**
Hazardous waste	Ton	3.2
Hazardous waste intensity	Ton/million RMB	0.00035
Non-hazardous waste	Ton	1,515.6
– Chinese herb residue	Ton	1,301.0
– Sewage sludge	Ton	63.1
– Household garbage	Ton	151.5
Non-hazardous waste intensity	Ton/million RMB	0.16

7.2 Resource Management

The Group attaches great importance to resource management. It has formulated *Management Regulations on Energy Conservation and Consumption Reduction, Regulations on Resource Conservation Management*, etc. to manage the efficient utilization of resources such as energy, water, packaging materials, and paper. It always focuses on energy conservation and emission reduction in production and operation, in an effort to reduce the impact on the environment and natural resources and promote the sustainable and harmonious development of enterprises and the environment.

The Group advocates a "green and low-carbon" office culture. During the Reporting Period, it further added hygiene, recovery and recycling in the *Proposal for Energy Saving and Consumption Reduction*, encouraging employees to strengthen effective measures for energy conservation and consumption reduction such as the reuse of recyclables, and enhancing the awareness of all employees on environmental protection.

7.2.1 Energy Conservation

The Group constantly promotes conservation and efficient utilization of energy and reduces greenhouse gas emissions from energy use. Compared to 2020, the conversion of electricity for comprehensive energy consumption intensity of the Group is reduced by 21.5% in 2021. In addition, the electricity consumption intensity of the Group is expected to be reduced by at least 2% by the end of 2023 comparing with 2020, and the Group takes the following measures to manage various energy consumption.

Electricity	Electricity is mainly used in pharmaceutical production and daily office: ✓ Scheduling production reasonably to reduce the production time in hot summer and reduce the energy consumption of workshops; ✓ Assigning dedicated personnel to conduct routine supervision and inspection of the use of electricity, and shut down the powered equipment in a timely manner; ✓ Replacing old electric appliances, installing energy-saving lamps such as LED lamps, and adopting solar equipment for street lamps and surveillance facilities; ✓ Setting the air conditioning temperature to 26 degrees Celsius, and regularly maintaining the air conditioners to reduce energy consumption; ✓ Rearranging unreasonable layout of electrical wiring that waste electric power in office areas; ✓ Posting slogans in workshops, office areas and other spaces to promote energy conservation and emission reduction.
Boiler fuel	Fuel is used mainly by boilers in the pharmaceutical production process: ✓ Small gas boilers have been put into use, and their use is reasonably adjusted according to the production load to reduce unnecessary fuel consumption; ✓ Strictly preventing the energy waste due to steam and liquid leakage or dripping, etc.; ✓ Maintaining boilers regularly to ensure reasonable and efficient use of gas boilers; ✓ Detecting and repairing the leakage of volatile organic compounds on a regular basis to reduce emission and leakage of the sealing points; ✓ Purchasing high-quality clean fuels to ensure efficient fuel utilization.
Gasoline	Gasoline is used mainly by vehicles for business use: ✓ Strictly implementing the *Regulations on Vehicle Management*, implementing vehicle registration and approval system for vehicle use, and encouraging employees to travel together to reduce the frequency of vehicle use; requiring drivers of corporate vehicles to do mileage registration and standardizing the use of corporate vehicles; ✓ Regularly inspecting and maintaining vehicles to ensure their normal operation and reduce fuel consumption; ✓ Encouraging employees to walk or take the battery-powered bicycles in the industry park as much as possible; ✓ Replacing vehicles that have been used for many years and consume a lot of fuel with vehicles of smaller engines, and preferring new-energy vehicles during purchase of new vehicles.
Diesel oil	Diesel oil is used mainly by greenhouses' insulation equipment and vehicles for the agricultural and livestock business, and standby power generators for the pharmaceutical production business: ✓ Reasonably scheduling transportation, to reduce the number of transportation times and the frequency of diesel engine use; ✓ Diesel generators are standby power generators for production; the pharmaceutical production department reduces the frequency of diesel generator use through staggered production peak scheduling, and regularly maintains diesel generators.

The Group's GHG emissions mostly come from direct emissions (Scope 1) of energy consumption of natural gas, gasoline, diesel oil, etc., and indirect emissions of purchased electricity (Scope 2).

Table 23 GHG Emission Data

	Unit	Year 2021
Direct GHG emission (Scope 1)[1]	Ton CO_2e	5,540.3
Indirect GHG emission (Scope 2)[2]	Ton CO_2e	4,866.8
Total GHG emission (Scope 1 + 2)	Ton CO_2e	10,407.1
Total GHG emission (Scope 1 + 2) intensity	Ton CO_2e/million RMB	1.13

In line with China's "dual carbon" goals, the Group set a target in 2020, expecting that by the end of 2023, the total GHG emission intensity will decline by no less than 5% from 2020 levels. Through the consumption control of various types of energy, the Group's GHG emissions have been successfully controlled, the GHG emission intensity has decreased by 33.7% in 2021 Compared to 2020.

7.2.2 Water Conservation

The Group's water consumption mainly derives from production and cleaning in drug plants, agricultural irrigation and livestock cultivation, as well as daily use by employees. Through internal policies such as the *Resource-conserving Management Regulations, Management Regulations on Energy Conservation and Consumption Reduction,* and *Regulations on Green Agriculture and Livestock*, the Group strengthens the management of water consumption and enhances employees' awareness of water conservation. During the Reporting Period, Kangzhe Hunan carried out comprehensive inspection of the pipeline network across the factory to prevent leakage and dripping and fixed all problems with hidden risks, thereby reducing the water waste. The Group has set a target to reduce the water consumption intensity by at least 5% by the end of 2023, comparing with 2020 and urges all water-using units to implement water-saving measures.

Production area in pharmaceutical factories	✓ Installing multi-level water meters in each workshop to effectively monitor the water consumption of key segments; ✓ Comprehensively checking, maintaining, and repairing the water supply system in the factory to reduce the waste of water; ✓ Recycling and reusing the cooling water for production in workshops; ✓ Collecting the domestic wastewater and production wastewater to the self-built sewage treatment station for treatment, and then recycling ✓ Avoiding excessive, irrigation water use, making the maximum use of the water treated by the sewage treatment station for watering, and extending the watering cycle properly.
Agricultural and livestock areas	✓ 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 water waste; ✓ Using reservoirs and pipeline ditches to store rainwater, and basically realizing the use of natural water for greenhouse irrigation.
Employees' office and living areas	✓ Promoting water conservation and punishing act of water wasting from the source; ✓ Substituting water-saving taps in office areas, dormitories, canteens, and other places, and adjusting properly the auto-flushing interval; ✓ Upgrading some aged automatic flush valves to prevent water waste due to the aging of equipment.

[1]Direct GHG emission: refers to emission from sources owned or controlled by a company, such as emission from coal-fired boilers, fuel vehicles, or processes owned or controlled by a company. ---- GHG Protocol *Corporate Accounting and Reporting Standard (Revised Edition)*

[2] Indirect GHG emission: refers to emission that is caused by the activities of a company but occurs from emission sources owned or controlled by other companies. ---- GHG Protocol *Corporate Accounting and Reporting Standard (Revised Edition)*

Each subsidiary of the Group regularly monitors and measures the risk of water use in operation; Kangzhe Hunan conducts a routine inspection of purified water once a week and a systematic verification once a year in accordance with the methods specified in the *Pharmacopoeia of the People's Republic of China*; according to the requirements of national standards, drinking water is inspected once a month, and a qualified third-party institution is commissioned for audit and inspection every year. Hebei Xili engaged a third-party institution to inspect the tap water every year. Hunan Agriculture and Livestock formulated the *Hunan Agriculture and Livestock Water Testing Methods*, adopting the inspection methods of "seeing, smelling, observing, drinking, tasting and checking", inspects the tap water every month, and invites health inspection and quarantine authorities to come to the site for centralized inspection and testing once a year, thereby ensuring that the water quality meets the standard and guaranteeing water safety.

7.2.3 Packaging Material and Paper Conservation

The Group requires warehouse management personnel to use packaging materials as per the need, and strictly control the quantity of packaging materials to reduce unnecessary waste according to the *Material Distribution Regulations*. In addition, the Group has taken the following measures to promote the recycling of packaging materials and reduce the quantity of packaging materials:

Recycling packaging materials	Reducing packaging materials
✓ Hunan Agriculture and Livestock stipulates that all packaging materials shall meet environmental protection requirements, and packaging recycling marks that meet national standards shall be clearly printed on them; ✓ Setting up packaging material recovery sites at warehouses, so that the recyclable packaging materials generated from the returned products and in other processes are classified and recovered; ✓ Recovering reusable materials such as damaged and old separation films, and using them as other fillers.	✓ Using machines for packaging and carrying out training on packaging operations to reduce waste of packaging materials; ✓ Delivering goods in the whole package whenever possible and reducing the use of packaging materials.

The Group imposes corresponding environmental requirements for packaging material suppliers, insists on choosing environment-friendly packaging materials with higher cost-effectiveness, and requires cooperative packaging material suppliers to provide their environmental evaluation certificates and material quality inspection certificates for production materials. The amount of formaldehyde released from cartons, pearl cotton, blister boxes and adhesives of various packaging materials shall meet the E2-level requirements of GB18580-2001 *Indoor Decorating and Renovating Materials - Limit of Formaldehyde Emission of Wood-based Panels and Finishing Products*.

The Group insists on regulated paper use, and suggests double-sided printing and the diversified use of paper; waste paper recovery bins are provided to encourage the secondary use of the paper not bearing confidential information, to fully promote a paperless office environment.

Table 24 Energy and Resource Utilization Data

	Unit	Year 2021
Conversion of electricity for comprehensive energy consumption	kWh	31,030,740.3
– Purchased electricity	kWh	7,970,635.2
– Purchased electricity intensity	kWh/million RMB	863.54
– Natural gas	m^3	1,101,296.0
– Alcohol-based liquid fuel	Ton	1,664.4
– Gasoline	Liter	69,872.7
– Diesel oil	Liter	857.5
– Liquefied gas	Kg	855.0
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	3,361.87
Total water consumption	m^3	206,317.2
Total water consumption intensity	m^3/million RMB	22.35
Total packaging material	Ton	831.7
– Paper product	Ton	476.5
– Glass bottle	Ton	213.1
– Plastics	Ton	142.1
Total packaging material intensity	Ton/million RMB	0.09
Office paper	Ton	11.7

7.3 Environment and Natural Resource

The Group focuses on developing employees' awareness of environmental protection, delivering green business philosophy, constantly exploring the operation mode of harmonious coexistence with nature, protecting biodiversity, and promoting green, harmonious and sustainable development with stakeholders. The Group's operating process has not involved the extraction and utilization of large quantities of natural resources, nor has had any material environmental impact. The Group has developed regulations such as *Factory Environment Sanitation Management Procedures* and *Comprehensive Contingency Plan for Environmental Emergencies* to implement internal management and protect the environment and natural resources.

The Group pays continuous attention to the protection of biodiversity in surrounding areas in pharmaceutical production business and agriculture and livestock business. The Group's business does not involve animal testing, none of its products and services have had any significant impact on biodiversity, and none of its operation sites have been set up in critical areas for nature conservation.

The Group's subsidiary Hunan Agriculture and Livestock has formulated the *Regulations on Green Agriculture and Livestock* to actively drive the realization of harmless agricultural and livestock production technology, systematic conservation of ecological environment, and environmentally friendly agricultural and livestock products, in an effort to control and mitigate environmental pollution. The Group's protection measures for environmental and natural resources include but are not limited to:

Office areas	Pharmaceutical production areas	Agriculture and livestock areas
✓ Promoting green office program in a top-down manner, starting from daily trifles to reduce resource consumption; ✓ Effectively managing the waste generated in daily work and life, proposing and practicing cyclic utilization to lower impacts on surrounding environment.	✓ Standardizing procurement to prevent environmental damages such as over-harvesting and destruction of biodiversity, etc.; ✓ Strengthening greening project in factories and protecting surrounding water and soil resources.	✓ Cleaning animal enclosure every day, and carrying out regular sanitary inspection to reduce the impact of the breeding area on the surrounding air and water area; ✓ Setting up double-layer protection in the breeding area to strictly prevent the pollution to the surrounding environment; ✓ Collecting and using natural precipitation for irrigation to reduce the consumption of purchased water sources.

7.4 Climate Change Response

The Task Force on Climate-Related Financial Disclosure (TCFD) was created by the Financial Stability Board (FSB) in 2015 to develop consistent guidelines for enterprises in order to assist them in making voluntary climate-related financial risk disclosures. Aligned with the recommendations of the TCFD, the Group voluntarily discloses climate-related information for the four sections of governance, strategy, risk management and metrics and targets through the consistent, comparable, reliable, clear and efficient framework, and will gradually improve the disclosure content in the coming years.

7.4.1 Governance

The main responsibilities of the ESG Committee under the Board of Directors of the Group include formulating and reviewing the Group's climate change-related management policies, strategies and structures, identifying trends, risks and opportunities related to climate change, and supervising the setting and accomplishment of the Group's climate change-related targets.

7.4.2 Strategy

The Group acknowledges that climate change will bring a variety of risks and opportunities to the Group's business. During the year, the Group identified physical risks and transition risks with significant impacts and likelihood from the perspective of business and day-to-day operations, explored potential opportunities, and actively took into account the results of analysis in making the Group's strategic decisions.

Table 25 Identified Climate-related Risks

Risk type	Implication	Potential risks	Potential financial impact
Physical Risk			
Acute risk	Asset losses caused by increasingly frequent extreme weather and climate-related natural disasters such as typhoons, heavy rains, floods, fires, heat waves, and other weather events.	Damage to the Group's fixed assets such as office properties, plant buildings, equipment and office facilities, operation and production interruption, and threats to the normal operations and labor safety of enterprises and the supply chain, caused by extreme weather.	Write-offs and early retirement of existing assets; Reduced revenue due to diminished operation and production capacity resulting from transportation difficulties, supply chain interruption, and staff's health and safety issues caused by disasters.
Chronic risk	Long-term shifts in climate patterns, such as rising global temperatures, rising sea levels, reduced water resources, biodiversity loss and changes in land productivity.	Change in the supply of raw materials for pharmaceutical production, as a result of the animal and plant growth environment change caused by climate change.	Reduced revenue due to supply chain interruption caused by raw material shortages; Increased use and operating costs of resources and energy due to continuous temperature rise.
Transition Risk			
Policy risk	Risks arising from relevant policy regulations, such as energy efficiency requirements and guidelines, more aggressive carbon reduction strategies adopted by countries, carbon pricing or carbon tax regimes implemented in the markets in which the Group operates, and stricter public disclosure requirements.	Potential impact on the Group of policies to be launched regarding the reduction of greenhouse gas emissions, use of less polluting energy, implementation of energy-saving solutions, implementation of water-saving measures, etc. and potentially stricter disclosure requirements from exchanges under China's "dual carbon" goal.	Increased compliance costs; Write-off of existing assets, asset impairment, and early retirement due to policy changes.
Market risk	Change in the supply and demand of existing products and services due to the intensified impact of factors related to climate change.	Changes in the incidence and infection rates of certain diseases, and increased requirements from patients for the effectiveness of corresponding medical products and services due to the impact of climatic factors.	R&D costs for enhancing the effectiveness of pharmaceutical products and services.
Reputation risk	If enterprises fail to take timely measures, the production and operation process will have a long-term destructive impact on the climate, which will in turn have a negative impact on the reputation of enterprises.	Given investors' growing demand and expectations for environment-friendly and low-carbon financing and investment, potential risks of failing to meet the expectations of customers, staff, business partners, and investors in the Group's environmental performance.	Reduced revenue due to reduced demand for products/ services; Additional costs resulting from the transition to low-emission production processes; Decreased available funds.

Table 26 Identified Climate-related Opportunities

Opportunity type	Implication	Potential opportunities	Potential financial impact
Resource opportunity	With the development and iteration of technology and the optimization of operation processes, the efficiency of the use of various types of resources in the operation process of enterprises continues to improve.	In the operation process, the Group effectively controls the use of resources in pharmaceutical production, agriculture and livestock, office work and other aspects by implementing the resource management system and equipment renewal, so as to improve the efficiency of resource use.	Reduced operating costs; Increased production capacity and increased revenue.
Energy opportunity	Opportunities brought by transformation of energy sources and supply methods for enterprise energy consumption, thanks to the evolving technology.	Change in the Group's energy use structure and carbon market trading opportunities brought by the vigorous promotion of the new energy industry by the policy and technological environment and the establishment of the carbon market under China's "dual carbon" goal.	Lowered levelized cost of energy, and lowered operating costs of the Group; Lowered carbon costs or additional profit through carbon trading; Reduced financing difficulties and increased availability of capital for low-carbon enterprises; Improved reputation leading to increased consumers' demand for products and services ,which contributes to higher revenue.
Product opportunity	New opportunities in products and services brought by consumers' willingness to pay for the added value of products and changes in consumer preferences.	Under the broad trend of consumption upgrade driven by the rapid development of China's economy, the preference of consumption has changed, and more attention is paid to the transmission of values in purchasing behavior. The Group's carbon emission control may give the brand an additional implication of low carbon and environmental protection to cater for the needs of consumers.	Increased revenue thanks to consumers' demand for low-emission products and services.
Market opportunity	Changes in the market landscape due to climate change, including the changes in the volumes of existing product and service markets and the emergence of new markets.	Due to the impact of climate change, the infection rates and incidence of diseases change, which leads to the changes in demand for different pharmaceutical products and services, and the emergence of the demand for innovative drugs.	Increased demand for existing products results in revenue growth; Sales of innovative drugs drives additional revenue.

7.4.3 Risk Management

In accordance with the classification of climate-related risks and potential financial impacts in the guidance issued by the TCFD, the Group carries out the climate-related risk identification work based on its business type and its operations. The *Emergency Response Plan for Environmental Incident* and the *Regulations on Environmental Protection* have been formulated that cover relevant management regulations on response to climate change with an aim to adapt to climate change and mitigate disaster risks. To effectively address the identified climate-related risks, the Group has taken a number of measures:

To address physical risks:	To address transition risks:
✓ Augmenting investment in energy-saving and emission-reduction measures, such as increasing the proportion of renewable energy used and reducing dependence on fossil fuels; ✓ Setting up an emergency team to strengthen routine inspection of office areas and factories, check that equipment is in good operation, and try to eliminate safety risks (e.g., strengthening routing inspection, and taking further thermal insulation measures for water pipes in cold winter, etc.).	✓ When building new plants in the future, the Group will carefully select construction sites, improve the quality of construction materials, and change for high-quality equipment to reduce or avoid the impact of extreme weather; ✓ Continuously tracking changes in diseases worldwide, including pandemics, and adjusting pharmaceutical production plans and innovative drug deployment plans based on analysis results.

7.4.4 Metrics and Targets

To supervise and review the Group's performance on climate change management, the Group will disclose climate-related quantitative indicators in its annual reports, and the ESG Working Group will be responsible for setting the Group's climate change-related targets and conducting regular follow-up reviews after they are checked and approved by the Board of Directors.

Table 27 Climate change-related metrics and targets

Metrics	Year 2021	Target
Direct GHG emission (Scope 1)	5,540.3 Ton CO_2e	To reduce total GHG emission intensity by no less than 5% in 2023 comparing with 2020
Indirect GHG emission (Scope 2)	4,866.8 Ton CO_2e	
Total GHG emission (Scope 1 + 2) intensity	1.13 Ton CO_2e /million RMB	

8. Community Dedication

The Group considers the efforts in promoting medical advancement as a momentum for its development, continuously pays close attention to the needs of communities, incorporates social service undertakings into the Group's long-term planning, and actively assumes corporate social responsibility. During the Reporting Period, the Group vigorously carried out a number of community service and public welfare activities such as health care, disease science popularization and charitable donations, to help build a healthy, harmonious and sustainable community environment.

8.1 Promoting Medical Advancement

The Group actively organises disease education activities for general patients. By cooperating with social groups, academic social organizations, and others, and utilising digital conference platforms, the Group promotes the dissemination and popularization of professional medical knowledge, and deepens the understanding and prevention of various diseases among community residents. During the Reporting Period, the Group continued to carry out various activities to contribute to the medical advancement, including but not limited to:

- Live-streaming event on National Eye Health Day

The Group joined hands with JD Health to hold a large live-streaming event under the theme of "Actively Prevent and Control Myopia and Build a Bright Future Together". Multiple well-known ophthalmologists were invited to give speeches. The live-streaming event attracted more than 10,000 people who watched and liked the event.

- Public lecture on inflammatory bowel disease

The Group teamed up with the Gastroenterology Branch of Chinese Medical Association, to hold a large-scale public lecture on World Inflammatory Bowel Disease Day, inviting experts in the field to talk about some of the most typical topics that patients were most concerned about. The total number of viewers online and offline exceeded 2,000.

- Public service event on hypertension

Over the years, the Group has continuously held public service consultation and health education activities for hypertension patients. During the Reporting Period, partnering with the Hypertension Branch of the Chinese Geriatrics Society, the Group held the "October - the Hypertension Publicity Month" activity, during which 30 offline public service consultation and patient education sessions were held, more than 200 medical staff participated, more than 700 patients attended.

8.2 Participation in Public Service Activities

In order to continuously fulfill social responsibilities and provide management standards for various public service activities, the Group has formulated and released the *External Donation Management Policy* to further define the principles of community public service donations, types of donations, internal approval procedures and rules. The Group requires that donations be made for legal, compliant, voluntary and non-profit purposes, that continuous attention be given to recipients of donations or their communities and the influence of donations be tracked. By preparing an annual quantitative tracking summary, the Group ensures that its donations serve the intended purposes and play a role in promoting community development.

During the Reporting Period, the Group took initiative to explore and grasp social activity opportunities that contributed to the development of public services, and successfully held a number of public service activities. The total amount of donation for public services in communities was about RMB1.2 million, including but not limited to:

- The Group actively contributed to the reconstruction work in Henan Province which was devastated by torrential rains and floods by donating RMB1.00 million to Henan Charity General Federation. All the donated funds have been used to support Henan's anti-flood program according to continuous tracking and follow-up.

- Since 2003, the Group's subsidiary in Hunan has been conducting long-term donation and funding for education to local educational institutions in Li County, Hunan Province. During the Reporting Period, it donated education funds of RMB130,000, all of which were used to reward and support outstanding teachers and poverty students. As of the end of 2021, its accumulated funding for local education bureaus and schools totaled about RMB1.15 million.

- Since 2017, the Group's subsidiary in Hunan has continuously carried out its nursing home support program, regularly providing benefits to local nursing homes in Li County, Hunan Province. During the Reporting Period, the Group provided seasonal fruits to over 40 elderly people in nursing homes, donating materials worth about RMB25,000.

- Since 2016, the Group's subsidiary in Hunan has provided free agricultural technology guidance to farmers around Li County, Hunan Province, as well as hired an annual average of about 5,000 local farmers, driving the re-employment of the local farmers in the neighborhood.

- For 3 consecutive years, the Group's Shenzhen subsidiary participated in the "Urban Superman" activity in Majialong Community in Shenzhen, donated about RMB25,000 accumulatively to 7 residents living in difficulties, and received the title of "Ambassador for Making Dreams Come True" from the local community.

- The Group's Shenzhen subsidiary donated consolation supplies to anti-pandemic and vaccination staff in Majialong Community in Shenzhen, expressing gratitude to the frontline anti-pandemic staff in communities through real actions.

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index

Environmental, Social and Governance General Disclosure and KPIs			Chapter
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	7. Environmental Protection
	A1.1	The types of emissions and respective emissions data	7.1 Environmental Protection Emission Control
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.2 Environmental Protection Resource Management 7.4 Environmental Protection Climate Change Response
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.1 Environmental Protection Emission Control
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.1 Environmental Protection Emission Control
	A1.5	Description of emission target(s) set and steps taken to achieve them	7.1 Environmental Protection Emission Control
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	7.1 Environmental Protection Emission Control
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	7. Environmental Protection
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	7.2 Environmental Protection Resource Management
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	7.2 Environmental Protection Resource Management
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	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 target(s) set and steps taken to achieve them.	7.2 Environmental Protection Resource Management
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	7.2 Environmental Protection Resource Management

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
A. Environmental			
A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	7.3 Environmental Protection Environment and Natural Resource
	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 Resource
A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	7.4 Environmental Protection Climate Change Response
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	7.4 Environmental Protection Climate Change Response
B. Social			
Employment and Labour Practices			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5.1 People-oriented Practice Employment Compliance
	B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	5.1 People-oriented Practice Employment Compliance
	B1.2	Employee turnover rate by gender, age group and geographical region.	5.1 People-oriented Practice Employment Compliance
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5.2 People-oriented Practice Employees Care
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	5.2 People-oriented Practice Employees Care
	B2.2	Lost days due to work injury.	5.2 People-oriented Practice Employees Care
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	5.2 People-oriented Practice Employees Care

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
B. Social			
Employment and Labour Practices			
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. *Note: Training refers to vocational training. It may include internal and external courses paid by the employer.*	5.1 People-oriented Practice Employment Compliance
	B3.1	The percentage of employees trained by gender and employee category (e.g. mid-level and senior management, general employees).	5.1 People-oriented Practice Employment Compliance
	B3.2	The average training hours completed per employee by gender and employee category.	5.1 People-oriented Practice Employment Compliance
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	5.1 People-oriented Practice Employment Compliance
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	5.1 People-oriented Practice Employment Compliance
	B4.2	Description of steps taken to eliminate such practices when discovered.	5.1 People-oriented Practice Employment Compliance
Operating Practices			
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	6. Cooperation and Mutual Benefit
	B5.1	Number of suppliers by geographical region.	6.1 Cooperation and Mutual Benefit Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	6.1 Cooperation and Mutual Benefit Supply Chain Management
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	6.1 Cooperation and Mutual Benefit Supply Chain Management 6.2 Cooperation and Mutual Benefit Sustainable Development of Supply Chain
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	6.1 Cooperation and Mutual Benefit Supply Chain Management 6.2 Cooperation and Mutual Benefit Sustainable Development of Supply Chain

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
B. Social			
Operating Practices			
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4. Product Liability
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.2 Product Liability Pharmacovigilance and Product Recall
	B6.2	Number of products and service related complaints received and how they are dealt with.	4.1 Product Liability Quality of Product and Service
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.5 Product Liability Protection of Intellectual Properties Rights
	B6.4	Description of quality assurance process and recall procedures.	4.1 Product Liability Quality of Product and Service 4.2 Product Liability Pharmacovigilance and Product Recall
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	4.3 Product Liability Privacy Protection and Information Security
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3. Compliance Operation
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	3.1 Compliance Operation Anti-corruption Management
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	3. Compliance Operation
	B7.3	Description of anti-corruption training provided to directors and staff.	3.1 Compliance Operation Anti-corruption Management 3.2 Compliance Operation Compliant Marketing and Promotion

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
B. Social			
Community			
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	8. Community Dedication
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	8.1 Community Dedication Promoting Medical Advancement 8.2 Community Dedication Participation in Public Service Activities
	B8.2	Resources contributed (e.g. money or time) to the focus area.	8.2 Community Dedication Participation in Public Service Activities

Appendix 2 Key Environmental KPIs[3]

KPIs	Unit	Year 2019	Year 2020	Year 2021
Air Pollutants				
Sulfur Dioxide (SO_2)[4]	Kg	26.4	0.0	103.2
Nitrogen Oxide (NO_x)[4]	Kg	1,698.6	2,046.1	1,693.7
Particulate Matter (PM)[4]	Kg	238.4	165.5	143.3
Wastewater and Pollutants				
Wastewater	m^3	57,536.7	71,298.0	84,294.4
Wastewater intensity	m^3/million RMB	8.97	9.64	9.13
Ammonia Nitrogen (NH_3-N)[5]	Ton	0.1	0.1	0.2
Chemical Oxygen Demand (COD)[5]	Ton	1.2	0.8	2.3
GHG[6]				
Total GHG emission (Scope 1 + 2)[8]	Ton CO_2e	12,081.5	12,581.5	10,407.1
Total GHG emission (Scope 1 + 2) intensity[8]	Ton CO_2e /million RMB	1.88	1.70	1.13
Direct GHG emission (Scope 1)[7]	Ton CO_2e	5,854.1	5,895.3	5,540.3
Indirect GHG emission (Scope 2)	Ton CO_2e	6,227.4	6,686.2	4,866.8
Solid Waste				
Hazardous waste	Ton	0.2	4.3	3.2
Hazardous waste intensity	Ton/million RMB	0.00003	0.00058	0.00035
Non-hazardous waste	Ton	1,676.8	1,531.3	1,515.6
Non-hazardous waste intensity	Ton/million RMB	0.26	0.21	0.16

[3] From 2021 onwards, the Group adopts the revenue "in the case that all medicines were directly sold by the Group" for the calculation of the intensity of environmental indicators, that is, the total amount of emissions or use divided by the revenue "in the case that all medicines were directly sold by the Group" (RMB million) during the corresponding reporting period. The intensity data of environmental indicators in 2019 and 2020 have been restated accordingly.

[4] The annual emission of air pollutants is the estimated value, which is calculated from the total natural gas consumption of the boiler, the fixed gas consumption rated of the boiler and the emission rate. The emission rate comes from the test report of a professional third party hired by the Group so the emission rate is related to the production status and fuel quality at the test time point. In addition, the calculation method of air pollutants was changed. In the past, the annual emission was calculated according to the rate of a single test report during the Reporting Period. In 2021, the emission was calculated according to the average rate of multiple test reports during the Reporting Period. For details of the calculation formula, please refer to Appendix 4 "Calculation of Key Environmental KPIs"

[5] During the Reporting Period, the increase in NH_3-N and COD was mainly due to: (1) The calculation method was changed. In the past, the annual emission was calculated according to the rate of a single test report during the Reporting Period. In 2021, the emission was calculated according to the average rate of multiple test reports during the Reporting Period. For details of the calculation formula, please refer to Appendix 4 "Calculation of Key Environmental KPIs"; (2) The increase in production and the increase in the trial production of new drugs lead to an increase in production wastewater; (3) The change in market demand leads to the adjustment of the production structure, resulting in a change of pollutants in the production wastewater.

[6] The emission factors used in the calculation of GHGs in 2021 come from the revised version of HKEX Appendix II: Guidelines on Reporting Environmental Key Performance Indicators in May 2021. The emission factors used in the calculation of GHGs from 2019 to 2020 come from the version of HKEX Appendix II: Guidelines on Reporting Environmental Key Performance Indicators before May 2021 and after 2020.

[7] During the Reporting Period, the GHG emission (Scope 1) included the GHG reduction of newly planted 45 trees by Kangzhe Hunan in 2021.

Appendix 2 Key Environmental KPIs - continued

KPIs	Unit	Year 2019	Year 2020	Year 2021
Energy				
Conversion of electricity for comprehensive energy consumption[8]	kWh	30,443,173.8	31,675,959.7	31,030,740.3
Conversion of electricity for comprehensive energy consumption intensity[8]	kWh/million RMB	4,744.66	4,283.31	3,361.87
Purchased electricity	kWh	7,010,258.4	7,520,182.0	7,970,635.2
Purchased electricity intensity	kWh/million RMB	1,092.58	1,016.90	863.54
Natural gas	m^3	875,788.0	1,057,711.0	1,101,296.0
Alcohol-based liquid fuel	Ton	2,095.3	1,914.8	1,664.4
Gasoline[8]	Liter	80,272.9	67,814.2	69,872.7
Diesel oil[9]	Liter	1,616.9	2,117.3	857.5
Liquefied gas[10]	Kg	480.0	435.0	855.0
Water Resources				
Total water consumption[11]	m^3	204,687.8	282,658.0	206,317.2
Total water consumption intensity	m^3/million RMB	31.90	38.22	22.35
Packaging Materials/Office paper				
Total packaging materials	Ton	659.3	932.1	831.7
Total packaging material intensity	Ton/million RMB	0.10	0.13	0.09
Office paper[12]	Ton	8.0	8.3	11.7

[8] During the Reporting Period, the Group conducted a completeness and consistency review of the environmental data, and found that some production gasoline consumption data were missing in 2020. The Group restated the gasoline consumption data in 2020 in this Reporting Period. Relevant data in 2020 are also restated, such as comprehensive energy consumption converted electricity and its intensity, and total GHG emissions (scope 1+2) and its intensity.

[9] During the Reporting Period, most of the diesel oil was consumed by Hunan Agriculture and Livestock. Due to the decline in output, diesel consumption decreased.

[10] During the Reporting Period, all liquefied gas consumption was consumed by Hunan Agriculture and Livestock. As it added a canteen, the consumption of liquefied gas for cooking increased.

[11] During the Reporting Period, Kangzhe Hunan improved the water efficiency through extensive investigation and maintenance of potential water leakage problems, resulting in a decrease in the water consumption.

[12] During the Reporting Period, the number of employees in office increased, resulting in an increase in office paper use.

Appendix 3 Key Social KPIs

KPIs	Unit	Year 2019	Year 2020	Year 2021
Employment				
Total number of employees	Person	4,052	4,372	5,292
Number of male employees	Person	1,903	2,024	2,444
Number of female employees	Person	2,149	2,348	2,848
Number of employees in mid-level and senior management	Person	Non-disclosure	Non-disclosure	141
Number of male employees in mid-level and senior management	Person	Non-disclosure	Non-disclosure	97
Number of female employees in mid-level and senior management	Person	Non-disclosure	Non-disclosure	44
Number of contracted employees	Person	4,052	4,372	5,292
Number of dispatched employees	Person	0	0	0
Number of employees aged under 30	Person	2,150	2,180	2,108
Number of employees aged 30-50	Person	1,782	2,042	3,021
Number of employees aged over 50	Person	120	150	163
Number of Mainland China employees	Person	Non-disclosure	Non-disclosure	5,244
Number of HK, Macao, Taiwan. and overseas employees	Person	Non-disclosure	Non-disclosure	48
Employee Turnover				
Turnover rate of employees	%	18.6	13.9	17.8
Turnover rate of male employees	%	19.9	14.2	17.8
Turnover rate of female employees	%	17.3	13.7	17.8
Turnover rate of employees aged under 30	%	20.1	19.3	22.3
Turnover rate of employees aged 30-50	%	17.4	7.9	15.3
Turnover rate of employees aged over 50	%	5.5	6.8	9.7
Turnover rate of Mainland China employees	%	Non-disclosure	Non-disclosure	17.9
Turnover rate of HK, Macao, Taiwan and overseas employees	%	Non-disclosure	Non-disclosure	14.3
Occupational Health and Safety				
Working days lost due to work-related injury[13]	Day	338	240	375
Number of work-related fatalities	Person	0	0	0
Proportion of work-related fatalities	%	0	0	0
Proportion of employees with occupational health check benefit	%	100	100	100

[13] During the Reporting Period, the causes of employees' work injuries included traffic accidents, collisions and accidental falls on the way to and from work.

Appendix 3 Key Social KPIs - continued

KPIs	Unit	Year 2019	Year 2020	Year 2021
Training and Development				
Total employees training expenditure	Million RMB	2.9	5.3	6.3
Training coverage of employees	%	83.0	70.7	73.2
Training coverage of general employees[14]	%	99.6	98.1	97.2
Training coverage of mid-level and senior management[14]	%	0.4	1.9	2.8
Training coverage of male employees[14]	%	Non-disclosure	47.5	48.6
Training coverage of female employees[14]	%	Non-disclosure	52.5	51.4
Employees training duration per capita	Hour	34.1	18.5	18.0
Training duration per capita for general employees	Hour	34.4	18.6	18.2
Training duration per capita for mid-level and senior management	Hour	3.2	12.6	12.3
Training duration per capita for male employees	Hour	Non-disclosure	20.2	19.0
Training duration per capita for female employees	Hour	Non-disclosure	17.0	17.2
Supplier Management				
Total number of suppliers	Number	106	116	151
Number of Mainland China suppliers	Number	87	78	98
Number of HK, Macao, Taiwan and overseas suppliers	Number	19	38	53
Quality and Safety of Product and Service				
Response and handling rate for product and service quality related complaints	%	100	100	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0	0	0
Number of product and service related complaints	Number	150	137	160
Anti-corruption				
Corruption lawsuits	Number	0	0	0
Participation in Public Service Activities				
Total donation amount of public service activities	Million RMB	0.2	18.8	1.2

[14] During the Reporting Period, the Group adjusted the calculation method of the training coverage rate of general employees, mid-level and senior management, male employees and female employees according to the HKEX Appendix III: Guidelines on Reporting Social Key Performance Indicators. Use the formula: Coverage of trained employees by related categories = number of trained employees in related categories/total number of trained employees. The Group has restated relevant data for 2019 and 2020 according to this calculation method.

Appendix 4 Calculation of Key Environmental KPIs

Statistical targets: the Company, its wholly owned subsidiaries and majority owned subsidiaries
Intensity KPIs: From 2021 onwards, the Group adopts the revenue "in the case that all medicines were directly sold by the Group" for the calculation of the intensity of environmental indicators, that is, the total amount of emissions or use divided by the revenue "in the case that all medicines were directly sold by the Group"(RMB million) during the corresponding reporting period.

Indicator	Data source	Calculation method	Parameter usage
Sulfur Dioxide (SO_2)	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission	Rate of emission: average value of tests in the environmental test report
Nitrogen Oxide (NO_x)	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission	Rate of emission: average value of tests in the environmental test report
Particulate Matter (PM)	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission	Rate of emission: average value of tests in the environmental test report
Wastewater	Office/domestic wastewater: Water consumption* estimated coefficient or calculated according to monitoring result Production wastewater: calculated according to the monthly ledger of sewage treatment amount	/	/
Ammonia Nitrogen (NH_3-N)	Production wastewater: calculated according to the monthly ledger of sewage treatment amount	Ammonia nitrogen concentration*total amount of production wastewater discharged	Ammonia nitrogen concentration: average value of tests in the environmental test report
Chemical Oxygen Demand (COD)	Production wastewater: calculated according to the monthly ledger of sewage treatment amount	COD concentration*total amount of production wastewater discharged	COD concentration: average value of tests in the environmental test report
Direct GHG emission (Scope 1)	Consumption of fuels	Fuel consumption*(carbon dioxide emission coefficient + methane emission coefficient*methane GWP + nitrous oxide emission coefficient*nitrous oxide GWP)	Carbon dioxide emission coefficient/ methane emission coefficient/ methane GWP/nitrous oxide emission coefficient/nitrous oxide GWP: *Appendix 2:* Revised version of HKEX *Appendix II: Guidelines on Reporting Environmental Key Performance Indicators in May 2021*
Indirect GHG emission (Scope 2)	Total amount of purchased electricity	Electricity consumption amount*power grid carbon emission factor	Power grid carbon emission factor: Revised version of HKEX *Appendix II: Guidelines on Reporting Environmental Key Performance Indicators in May 2021*

Appendix 4 Calculation of Key Environmental KPIs - continued

Indicator	Data source	Calculation method	Parameter usage
Household garbage	Estimated based on production days or working days	Household garbage per day*production days or working days	/
Sewage sludge	Estimated according to the work record ledger	The number of sludge bags produced per day * the weight of each bag	/
Chinese herb residue	Total weight of the Chinese medicine input	/	/
Amount of waste chemicals generated in laboratories	Calculated according to transfer records of hazardous waste	/	/
Comprehensive energy consumption	Total amount of fuel consumption and purchased electricity	Fuel consumption * standard coal conversion coefficient * electric power equivalent value	Standardized coal coefficient and electric power equivalent value: National Standard of the People's Republic of China, *General Rules for Calculation of the Comprehensive Energy Consumption (GB/T2589-2020)*
Purchased electricity	Calculated according to the financial invoice	/	/
Natural gas	Calculated according to the financial invoice	/	/
Alcohol-based liquid fuel	Calculated according to the financial invoice	/	/
Gasoline	Calculated according to the financial invoice	/	/
Diesel oil	Calculated according to the financial invoice	/	/
Liquefied gas	Calculated according to the accounting documents	/	/
Water consumption	Calculated according to the financial invoice	/	/
Packaging materials	Calculated according to the actual amount used	/	/
Office Paper	Calculated according to the actual amount used	/	/

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 133 to 253, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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
(incorporated in the Cayman Islands with limited liability)

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified the impairment of goodwill 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 of disposal and value in use of the cash generating unit. The recoverable amount has been determined based on value in use calculation, 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 rate and the forecast performance based on management's view of future business prospects. As at 31 December 2021, the carrying value of goodwill allocated to a cash generating unit of Tianjin Kangzhe was RMB990 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, respectively.	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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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 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 OF
CHINA 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 Responsibili ties 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, actions taken to eliminate threats or safeguards applied.

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 Sy, Sunnie.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Revenue	5	8,337,221	6,945,964
Cost of goods sold		(2,090,283)	(1,811,749)
Gross profit		6,246,938	5,134,215
Other income	6	146,947	107,958
Other gains and losses	7	111,525	(181,438)
Selling expenses		(2,540,147)	(2,053,233)
Administrative expenses		(440,995)	(251,180)
Finance costs	8	(28,270)	(27,520)
Research and development expenses		(114,761)	(66,517)
Share of results of associates		75,352	153,804
Profit before tax		3,456,589	2,816,089
Income tax expense	11	(431,325)	(260,389)
Profit for the year	12	3,025,264	2,555,700
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(25,315)	(9,327)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive expense of associates		(10,541)	(34,127)
Exchange differences arising from translation of foreign operations		991	227
Change in fair value on cash flow hedges			
- fair value gain (loss)		3,929	(5,746)
- deferred tax relating to change in fair value		(731)	948
Other comprehensive expense for the year, net of income tax		(31,667)	(48,025)
Total comprehensive income for the year		2,993,597	2,507,675
Profit for the year attributable to:			
Owners of the Company		3,017,402	2,530,398
Non-controlling interests		7,862	25,302
		3,025,264	2,555,700
Total comprehensive income for the year attributable to:			
Owners of the Company		2,985,735	2,482,373
Non-controlling interests		7,862	25,302
		2,993,597	2,507,675
		RMB	RMB
Earnings per share	14		
Basic		1.2228	1.0237

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	15	453,154	474,823
Right-of-use assets	16	76,713	56,862
Interests in associates	17	2,687,286	2,639,711
Intangible assets	18	2,215,697	2,239,588
Goodwill	19	1,691,179	1,214,535
Equity instruments at fair value through other comprehensive income	20(b)	400,471	415,585
Deposits paid for acquisition of intangible assets	23	790,483	628,989
Amount due from an associate	24	30,000	30,000
Derivative financial instruments	32	-	682
Loan receivable		31,879	-
Deposit paid for acquisition of a subsidiary	45	15,000	-
Deferred tax assets	31	36,299	21,759
		8,428,161	7,722,534
Current assets			
Inventories	21	472,598	381,215
Financial assets at fair value through profit or loss	20(a)	977,874	3,884
Trade and other receivables and prepayments	22	2,204,002	1,705,606
Tax recoverable		19,469	12,082
Derivative financial instruments	32	-	49
Amount due from an associate	24	320,036	207,271
Bank balances and cash	25	3,385,739	2,668,426
		7,379,718	4,978,533
Current liabilities			
Trade and other payables	26	629,547	619,284
Lease liabilities	27	16,922	7,266
Contract liabilities	28	23,715	14,406
bank borrowings	29	1,103,760	10
Deferred consideration payables	30	2,000	2,929
Tax payable		305,310	268,068
		2,081,254	911,963
Net current assets		5,298,464	4,066,570
Total assets less current liabilities		13,726,625	11,789,104
Capital and reserves			
Share capital	33	84,177	84,634
Reserves	34	12,668,267	10,949,508
Equity attributable to owners of the Company		12,752,444	11,034,142
Non-controlling interests		94,543	68,573
		12,846,987	11,102,715

	NOTES	2021	2020
		RMB'000	RMB'000
Non-current liabilities			
Deferred tax liabilities	31	123,575	86,133
Lease liabilities	27	17,810	5,640
Deferred consideration payables	30	736	1,487
Bank borrowings	29	573,813	587,241
Derivative financial instruments	32	11,291	5,888
Obligation arising from put options	42(a)	152,413	-
		879,638	686,389
		13,726,625	11,789,104

The consolidated financial statements on pages 133 to 253 were approved and authorised for issue by the Board of Directors on 15 March 2022 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 2021

	Attributable to owners of the Company													
	Share capital	Share premium	Capital reserve	Surplus reserve fund	Translation reserve	Hedging reserve	Investments revaluation reserve	Share-based payment reserve	Other 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	RMB'000	RMB'000
Balance at 1 January 2020	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
Profit for the year	-	-	-	-	-	-	-	-	-	2,530,398		2,530,398	25,302	2,555,700
Share of other comprehensive expense of associates	-	-	-	-	(34,127)	-	-	-	-	-	-	(34,127)	-	(34,127)
Exchange differences arising from translation of foreign operations	-	-	-	-	227	-	-	-	-	-	-	227	-	227
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(9,327)	-	-	-	-	(9,327)	-	(9,327)
Change in fair value on cash flow hedges														
- fair value loss	-	-	-	-	-	(5,746)	-	-	-	-	-	(5,746)	-	(5,746)
- deferred tax relating to change in fair value	-	-	-	-	-	948	-	-	-	-	-	948	-	948
Total comprehensive (expense) income for the year	-	-	-	-	(33,900)	(4,798)	(9,327)	-	-	2,530,398	-	2,482,373	25,302	2,507,675
Repurchase of ordinary shares (Note 33)	(329)	(86,634)	-	-	-	-	-	-	-	-	-	(86,963)	-	(86,963)
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	-	(520,095)	(314,034)	(834,129)	-	(834,129)
Dividends proposed (Note 13)	-	-	-	-	-	-	-	-	-	(501,080)	501,080	-	-	-
Transfer of reserves	-	-	-	815	-	-	-	-	-	(815)	-	-	-	-
Release of surplus reserve fund upon deregistration of a subsidiary	-	-	-	(1,500)	-	-	-	-	-	1,500	-	-	-	-
Balance at 31 December 2020	84,634	2,304,879	19,545	354,768	(16,332)	(4,917)	(41,186)	-	-	7,830,445	502,306	11,034,142	68,573	11,102,715
Profit for the year	-	-	-	-	-	-	-	-	-	3,017,402	-	3,017,402	7,862	3,025,264
Share of other comprehensive expense of associates	-	-	-	-	(10,541)	-	-	-	-	-	-	(10,541)	-	(10,541)
Exchange differences arising from translation of foreign operations	-	-	-	-	991	-	-	-	-	-	-	991	-	991
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(25,315)	-	-	-	-	(25,315)	-	(25,315)
Change in fair value on cash flow hedges														
- fair value gain	-	-	-	-	-	3,929	-	-	-	-	-	3,929	-	3,929
- deferred tax relating to change in fair value	-	-	-	-	-	(731)	-	-	-	-	-	(731)	-	(731)
Total comprehensive (expense) income for the year	-	-	-	-	(9,550)	3,198	(25,315)	-	-	3,017,402	-	2,985,735	7,862	2,993,597
Repurchase of ordinary shares (Note 33)	(457)	(151,062)	-	-	-	-	-	-	-	-	-	(151,519)	-	(151,519)
Acquisition of a subsidiary (Note 42(a))	-	-	-	-	-	-	-	-	57,264	-	-	57,264	106,500	163,764
Acquisition of a subsidiary (Note 42(b))	-	-	-	-	-	-	-	-	-	-	-	-	18,108	18,108
Transfer of Employment Share to an employee (as defined and detailed in Note 42(a))	-	-	-	-	-	-	-	(54,588)	19,088	-	-	(35,500)	35,500	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	17,156	-	-	-	17,156	-	17,156
Recognition of obligation arising from put options (Note 42(a))	-	-	-	-	-	-	-	-	-	-	-	-	(142,000)	(142,000)
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	-	(652,528)	(502,306)	(1,154,834)	-	(1,154,834)
Dividends proposed (Note 13)	-	-	-	-	-	-	-	-	-	(557,594)	557,594	-	-	-
Transfer of reserves	-	-	-	7,383	-	-	-	-	-	(7,383)	-	-	-	-
Balance at 31 December 2021	84,177	2,153,817	19,545	362,151	(25,882)	(1,719)	(66,501)	(37,432)	76,352	9,630,342	557,594	12,752,444	94,543	12,846,987

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES			
Profit before tax		3,456,589	2,816,089
Adjustments for:			
Amortisation of intangible assets	18	164,196	161,942
Impairment loss on intangible assets		-	57,598
Impairment loss on goodwill		20,000	170,000
Impairment loss on financial assets under expected credit loss model		1,305	-
Interest expenses		17,608	27,203
Depreciation of property, plant and equipment	15	41,853	35,117
Depreciation of right-of-use assets	16	13,771	11,257
Loss on disposal of property, plant and equipment		225	145
Release on deferred difference on initial recognition of financial instruments		(1,929)	(1,929)
Imputed interest expense on deferred consideration payables		249	317
Imputed interest expense on obligation rising from put options		10,413	-
Share of results of associates		(75,352)	(153,804)
Interest income		(81,853)	(61,031)
Net foreign exchange loss (gain)		8,014	(26,684)
Change in fair value of derivative financial instruments		10,063	13,827
Change in fair value of financial assets at fair value through profit or loss		(115,656)	567
Share-based payment expense		17,156	-
Operating cash flows before movements in working capital		3,486,652	3,050,614
(Increase) decrease in inventories		(90,865)	25,843
Increase in trade and other receivables and prepayments		(367,886)	(132,767)
Increase in amount due from an associate		(112,765)	(52,651)
(Decrease) increase in trade and other payables		(33,867)	246,488
Increase in contract liabilities		9,309	1,467
Cash generated from operations		2,890,578	3,138,994
People's Republic of China ("PRC") Enterprise Income Tax paid		(268,482)	(170,175)
Hong Kong Profits Tax paid		(2,340)	(6,758)
Macau Complementary Income Tax paid		(125,904)	-
Malaysian Corporate Income Tax paid		-	(270,034)
NET CASH FROM OPERATING ACTIVITIES		2,493,852	2,692,027

	NOTES	2021 RMB'000	2020 RMB'000
INVESTING ACTIVITIES			
Interest received		81,853	61,031
Dividends received from an associate		47,235	70,125
Purchase of property, plant and equipment		(23,347)	(37,558)
Proceeds from disposal of property, plant and equipment		2,998	374
Proceeds from disposal of right-of-use asset		-	12,993
Purchase of financial assets at fair value through profit or loss		(858,334)	(1,715)
Purchase of equity instruments at fair value through other comprehensive income		(10,201)	(155,208)
Payments for rental deposits		(2,451)	-
Deposits paid for acquisition of intangible assets		(161,494)	(303,863)
Acquisition of an associate		(30,000)	-
Deposit paid for acquisition of a subsidiary		(15,000)	-
Loan to a third party		(31,879)	-
Net cash outflow on acquisition of subsidiaries		(518,905)	-
NET CASH USED IN INVESTING ACTIVITIES		(1,519,525)	(353,821)
FINANCING ACTIVITIES			
New bank borrowings raised		1,077,375	630,594
Repayment of deferred consideration payables		-	(9,810)
Interest paid		(17,608)	(27,203)
Dividends paid	13	(1,154,834)	(834,129)
Repayment of bank borrowings		(10)	(696,939)
Repayments of lease liabilities		(11,796)	(10,106)
Payment on repurchase of shares		(151,519)	(86,963)
NET CASH USED IN FINANCING ACTIVITIES		(258,392)	(1,034,556)
NET INCREASE IN CASH AND CASH EQUIVALENTS		715,935	1,303,650
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		2,668,426	1,365,008
Effects of exchange rate changes on the balance of cash held in foreign currencies		1,378	(232)
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH		3,385,739	2,668,426

1. GENERAL INFORMATION

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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to IFRS 16	Covid-19 Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the 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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

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

Impacts on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying IFRS 7 Financial Instruments: Disclosures ("IFRS 7").

As at 1 January 2021, the Group has several financial liabilities, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts.

	London Interbank Offered Rate ("LIBOR") RMB'000
Financial liabilities	
Bank borrowings	587,241

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost. Additional disclosures as required by IFRS 7 are set out in note 36.

Impacts on application of the agenda decision of the Committee - Cost necessary to sell inventories (IAS 2 Inventories)

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

2. APPLICATION OF 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 IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to IAS 8	Definition of Accounting Estimates[3]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2018 - 2020[2]

1 Effective for annual periods beginning on or after 1 April 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 Effective for annual periods beginning on or after a date to be determined

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

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in IFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting issued by International Accounting Standards Board in March 2018 (the "Conceptual Framework") instead of the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010);
- add a requirement that, for transactions and other events within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, an acquirer applies IAS 37 or IFRIC 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination .

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

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

Amendments to IFRS 3 *Reference to the Conceptual Framework* - continued

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to IFRSs *Annual Improvements to IFRSs 2018 - 2020*

The annual improvements make amendments to the following standards.

IFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

IAS 41 Agriculture

The amendment ensures consistency with the requirements in IFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of IAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.1 Basis of preparation of consolidated financial statements - continued

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 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.

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.

3.2 Significant accounting policies

Basis of consolidation

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Basis of consolidation - continued

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies 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.

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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Business combinations - continued

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 I*ncome 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 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Goodwill - continued

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).

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

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

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Interests in associates - continued

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 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Property, plant and equipment - continued

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" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Intangible assets - continued

Internally-generated intangible assets -research and development expenditure - continued

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.

Intangible assets acquired in a business combination

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

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, deposits paid for acquisition of intangible 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, deposits paid for acquisition of intangible 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 testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit 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 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

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) - continued

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. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 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 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 financial assets 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 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 investments 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, loan receivable, amount due from an associate and bank balances) which are subject to impairment assessment 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

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, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(i) Significant increase in credit risk - continued

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.

(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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(iv) Write-off policy

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

(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. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status; and
- Nature, size and industry of debtors.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(v) Measurement and recognition of ECL - continued

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments

Classification as debts or equity

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

Equity instruments

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

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

Financial liabilities

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

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities at FVTPL - continued

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, deferred consideration payables and obligation arising from put obligations, are subsequently measured at amortised cost, using the effective interest method.

Bank borrowings

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

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.

Obligation arising from put options

Put options written to a non-controlling shareholder which will be settled by exchange of fixed amount of cash for a fixed number of shares in a subsidiary is treated as derivative and is recognised at fair value upon initial recognition. Any changes of fair value in subsequent dated are recognised in profit or loss.

The gross financial liability arising from the put options is recognised when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the subsidiary. The liability for the share redemption amount is initially recognised and measured at present value of the estimated repurchase price with the corresponding debit to non-controlling interests. In subsequent periods, the remeasurement of the present value of the estimated gross obligation under the written put options to the non-controlling shareholder is recognised 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.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Derecognition of financial liabilities - continued

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform - continued

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

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.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non- contractually specified) are based is not altered as a result of interest rate benchmark reform.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 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.

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

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, and is included in "other gains and losses" line item.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Hedge accounting - continued

Cash flow hedges - continued

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

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 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).

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Revenue from contracts with customers - continued

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 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.

Variable consideration

For contracts that contain variable consideration (e.g. sales returns or volume rebates), the Group estimates the amount of consideration to which it will be entitled using the expected value method, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Taxation

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Taxation - continued

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Taxation - continued

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 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.

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Foreign currencies - continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during 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

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

For contracts entered into or modified on or after the date of initial application of IFRS16, 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.

The Group as a lessee

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Leases - continued

The Group as a lessee - continued

Right-of-use assets

The cost of right-of-use assets 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Leases - continued

The Group as a lessee - continued

Lease liabilities - continued

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.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Leases - continued

The Group as a lessee - continued

Lease modifications - continued

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

Borrowing costs

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

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

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

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 related to income 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. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under “other income”.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

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 and government retirement benefit scheme in PRC 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 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.

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 and annual leave) after deducting any amount already paid.

Share-based payments

Equity-settled share-based payment transactions

Shares/Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES- continued

3.2 Significant accounting policies - continued

Share-based payments - continued

Equity-settled share-based payment transactions - continued

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to accumulated profits. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will continue to be held in share-based payments reserve.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to share capital and share premium.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to the seven (2020: 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 or upward revision of discount rate, a material impairment loss/further impairment loss may arise.

During the year ended 31 December 2021, an impairment loss of RMB20,000,000 (2020: RMB170,000,000) was recognised in profit or loss. As at 31 December 2021, the carrying amount of goodwill is approximately RMB1,691,179,000 (2020: RMB1,214,535,000) (net of accumulated impairment loss of RMB190,000,000 (2020: RMB170,000,000)).

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 determined as the higher of its fair value less costs of disposal and its value in use. The recoverable amount 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. During the year ended 31 December 2021, an impairment loss of nil (2020: RMB57,598,000) was recognised in profit or loss. As at 31 December 2021, the carrying amount of intangible assets is approximately RMB2,215,697,000 (2020: RMB2,239,588,000).

Provision of ECL for trade receivables

Trade receivables with credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on internal credit ratings as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable, 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. Due to eased financial uncertainty triggered by the Covid-19 pandemic, the Group has decreased the expected loss rates in the current year as there is lower risk that a moderated pandemic could led to decreased credit default rates. The information about the ECL and the Group's trade receivables are disclosed in notes 36 and 22, respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Fair value measurement of financial instruments

As at 31 December 2021, the Group's unquoted equity instruments at FVTOCI amounting to RMB336,902,000 (2020: RMB382,341,000) and financial assets, being unlisted investments at FVTPL amounting to RMB977,264,000 (2020: RMB3,884,000) , 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. No impairment loss was recognised during the year ended 31 December 2021 and 2020. As at 31 December 2021, the carrying amount of the deposits paid for acquisition of intangible assets is approximately RMB790,483,000 (2020: RMB628,989,000).

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	2021 RMB'000	2020 RMB'000
Sales of pharmaceutical products	6,655,017	5,709,327
Promotion income	1,682,204	1,236,637
Total revenue	8,337,221	6,945,964

5. REVENUE AND SEGMENT INFORMATION - continued

(ii) Performance obligations for contracts with customers

The Group mainly sells pharmaceutical products to hospital and medical institutions throughout the PRC through distributors and provides promotion services to certain pharmaceutical manufacturers.

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.

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. Sales rebates will be granted to customers by the Group for qualified purchases at a pre-determined amount per unit.

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. All the revenue contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(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. Therefore, no analysis of the Group's revenue, results, assets and liabilities by operating segments is presented.

The Group's production of medicines, marketing, promotion and sale of drugs are primarily in the PRC. Almost all revenue from external customers is attributed to the PRC, 76% and 24% of non-current assets excluding amount due from an associate, derivative financial instruments and deferred tax assets of the Group are located in the PRC and Dubai, respectively (2020: 74% and 26%).

Sales to the largest customer of the Group account for 12.6% of the Group's sales and no other single customers contribute over 10% of the total revenue of the Group for the year ended 31 December 2021.

No single customer contributes over 10% of the total revenue of the Group for the year ended 31 December 2020.

6. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Interest income	81,853	61,031
Government subsidies (Note a)	65,094	46,927
	146,947	107,958

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. Such government grants were pertinent to income and aim to give immediate financial support to the Group with no future related costs. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

7. OTHER GAINS AND LOSSES

	2021 RMB'000	2020 RMB'000
Impairment loss on intangible assets	-	(57,598)
Impairment loss on goodwill	(20,000)	(170,000)
Loss on disposal of property, plant and equipment	(225)	(145)
Net foreign exchange gain	22,622	60,560
Change in fair value of derivative financial instruments	(10,063)	(13,827)
Change in fair value of financial assets at fair value through profit or loss	115,656	(567)
Release on deferred difference on initial recognition of financial instruments	1,929	1,929
Others	1,606	(1,790)
	111,525	(181,438)

8. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	15,397	26,109
Interest on lease liabilities	2,211	1,094
Interest on obligation arising from put options (Note 42(a))	10,413	-
Imputed interest on deferred consideration payables	249	317
	28,270	27,520

9. 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 2021							
	Executive Directors (Note b)		Independent Non-executive Directors (Note c)				Executive Director and chief executive (Note b)	
	Chen Hong Bing	Chen Yan Ling	Wu Chi Keung	Fung Ching, Simon	Leung Chong Shun	Luo, Laura Ying	Lam Kong	Total
	RMB'000	RMB'000	RMB'000 (Note f)	RMB'000 (Note g)	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000
Fees	199	199	152	47	199	199	199	1,194
Other emoluments								
Salaries and other benefits	3,874	2,964	-	-	-	-	4,311	11,149
Contributions to retirement benefits schemes	84	25	-	-	-	-	30	139
Total emoluments	4,157	3,188	152	47	199	199	4,540	12,482

	Year ended 31 December 2020							
	Executive Directors (Note b)		Independent Non-executive Directors (Note c)				Executive Director and chief executive (Note b)	
	Chen Hong Bing	Chen Yan Ling	Wu Chi Keung	Cheung Kam Shing, Terry	Leung Chong Shun	Luo, Laura Ying	Lam Kong	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note d)	RMB'000	RMB'000 (Note e)	RMB'000 (Note a)	RMB'000
Fees	203	203	203	47	203	156	203	1,218
Other emoluments								
Salaries and other benefits	4,189	3,038	-	-	-	-	4,145	11,372
Contributions to retirement benefits schemes	33	16	-	-	-	-	31	80
Total emoluments	4,425	3,257	203	47	203	156	4,379	12,670

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.

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

Notes: - continued

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

(d) Mr. Cheung Kam Shing, Terry resigned as the independent non-executive director of the Company on 31 March 2020.

(e) Ms. Luo, Laura Ying was appointed as the independent non-executive director of the Company on 31 March 2020.

(f) Mr. Wu Chi Keung resigned as the independent non-executive director of the Company on 6 October 2021.

(g) Mr. Fung Ching, Simon was appointed as the independent non-executive director of the Company on 6 October 2021.

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

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2021 included 3 directors (2020: 3 directors), details of whose emoluments are set out in note 9 above. The emoluments of the remaining two (2020: two) individuals for the year ended 31 December 2021 were as follows:

	2021 RMB'000	2020 RMB'000
Employees		
- basic salaries and allowances	4,773	4,248
- equity-settled share-based expense	17,156	-
- retirement benefits scheme contributions	-	61
	21,929	4,309

10. EMPLOYEES' EMOLUMENTS - continued

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	
	2021	2020
HK$2,000,001 to HK$2,500,000 (approximately RMB1,660,700 to RMB2,075,900)	-	1
HK$2,500,001 to HK$3,000,000 (approximately RMB2,075,900 to RMB2,491,100)	-	1
HK$3,500,001 to HK$4,000,000 (approximately RMB2,906,300 to RMB3,321,400)	1	-
HK$22,500,001 to HK$23,000,000 (approximately RMB18,688,500 to RMB19,103,800)	1	-

During 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.

11. INCOME TAX EXPENSE

	2021	2020
	RMB'000	RMB'000
Current tax:		
The PRC Enterprise Income Tax ("EIT")	273,738	223,843
Hong Kong Profits Tax	136	627
Macau Complementary Income Tax	151,969	127,866
	425,843	352,336
Under (over) provision in prior years:		
The PRC EIT	2,524	1,168
Malaysian Corporate Income Tax	-	(87,183)
Macau Complementary Income Tax	(6,744)	-
	(4,220)	(86,015)
Deferred taxation (note 31):		
- Current year	9,702	(5,932)
	431,325	260,389

11. INCOME TAX EXPENSE - continued

Notes:

(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% (2020: 15%) granted by the local tax authority until 2023. 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% (2020: 15%) granted by local tax authority until 2022. 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") is entitled to a reduced tax rate of 9% (2020: 9%) granted by local tax authority until 2021.

(b) Malaysian Corporate Income Tax and Withholding Income Tax

Due to the tax reform under Labuan New Tax Legislation, the Group's Malaysian subsidiary is 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. The Malaysian subsidiary had been disposed of by the Group on 17 December 2019.

(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.

11. INCOME TAX EXPENSE - continued

Notes: - continued

(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.

(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 2021 and 2020.

(g) Dubai Tax

The United Arab Emirates does not have a federal corporate income tax regime. Instead, corporate income tax is determined on a territorial basis under the respective Tax Decrees issued by the government of each individual Emirate (of which there are seven that make up the United Arab Emirates), among which Dubai has no legislation imposing corporate income taxes. On the basis of the above, most entities registered in Dubai are currently not required to file corporate tax returns in Dubai, regardless of where the business is registered. According to prevailing regulations in Dubai, no income tax is imposed on the Company's subsidiaries in Dubai.

11. 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:

	2021 RMB'000	2020 RMB'000
Profit before tax	3,456,589	2,816,089
Tax at PRC EIT rate of 25%	864,147	704,022
Tax effect of share of results of associates	(18,838)	(38,451)
Tax effect of expenses that are not deductible in determining taxable profit	89,572	102,881
Tax effect of income that is not taxable in determining taxable profit	(1,536)	(6,449)
Tax effect of offshore income that is not taxable in determining taxable profit	(88,583)	(71,355)
Tax effect of tax losses not recognised	3,400	3,546
Tax effect of deductible temporary differences not recognised	16,132	27,474
Tax effect of tax concession	(137,190)	(111,060)
Effect on different applicable tax rates of subsidiaries	(160,426)	(134,424)
Effect of taxable profit that is not taxable in Dubai	(132,222)	(129,154)
Overprovision in prior years	(4,220)	(86,015)
Others	1,089	(626)
Income tax expense for the year	431,325	260,389

12. PROFIT FOR THE YEAR

	2021 RMB'000	2020 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 9)		
Fees	1,194	1,218
Salaries and other benefits	11,149	11,372
Contribution to retirement benefits schemes	139	80
	12,482	12,670
Other staff costs	1,032,220	710,472
Equity-settled share-based expense	17,156	-
Contribution to retirement benefits schemes	136,583	28,911
Employee benefits expense (note 41)	-	25,000
Total staff costs	1,198,441	777,053
Auditor's remuneration	4,058	3,305
Depreciation of property, plant and equipment	41,853	35,117
Depreciation of right-of-use assets	13,771	11,257
Amortisation of intangible assets (included in cost of goods sold)	164,196	161,942
Cost of inventories recognised as an expense	1,919,419	1,641,855

For the year ended 31 December 2021, Covid-19 related government grants amounted to nil (2020: RMB19,617,000) have been offset against staff costs.

13. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2021 Interim - RMB0.2641 (2020: 2020 Interim dividend RMB0.2105) per share	652,528	520,095
2020 Final - RMB0.2033 (2020: 2019 final dividend RMB0.1271) per share	502,306	314,034
	1,154,834	834,129
Dividends proposed		
Dividends proposed during the year:		
2021 final – RMB0.2269 (2020: 2020 final - RMB0.2033) per share	557,594	502,306

The Board of Directors have declared a final dividend of RMB0.2269 per ordinary share for the year ended 31 December 2021 (2020: RMB0.2033 per ordinary share).

14. EARNINGS PER SHARE

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

	2021 RMB'000	2020 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	3,017,402	2,530,398

	Number of ordinary shares as at 31 December	
	2021	2020
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,467,696,556	2,471,841,299

The computation of diluted earnings per share for the year ended 31 December 2021 does not assume the exercise of put options by the non-controlling shareholder of a subsidiary as the exercise of the put option would result in an increase of earnings per share for the year ended 31 December 2021. The diluted earnings per share for the year ended 31 December 2020 was not presented as there was no dilutive potential ordinary shares outstanding as at 31 December 2020 and during the year ended 31 December 2020.

15. 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 2020	305,572	47,937	178,850	33,779	26,784	22,406	615,328
Additions	1,944	6,284	3,959	2,263	10,317	12,791	37,558
Disposals	-	-	(2,946)	(1,407)	(3,293)	-	(7,646)
Transfer	15,463	-	4,250	-	-	(19,713)	-
At 31 December 2020	322,979	54,221	184,113	34,635	33,808	15,484	645,240
Additions	1,810	6,727	1,956	2,272	7,239	3,343	23,347
Acquired on acquisition of a subsidiary	-	-	-	-	60	-	60
Disposals	-	-	(4,186)	-	(4,010)	-	(8,196)
Transfer	5,192	-	510	-	-	(5,702)	-
At 31 December 2021	329,981	60,948	182,393	36,907	37,097	13,125	660,451
ACCUMULATED DEPRECIATION							
At 1 January 2020	48,578	9,486	51,708	22,385	10,270	-	142,427
Provided for the year	12,050	4,327	12,089	3,541	3,110	-	35,117
Eliminated on disposals	-	-	(2,576)	(1,267)	(3,284)	-	(7,127)
At 31 December 2020	60,628	13,813	61,221	24,659	10,096	-	170,417
Provided for the year	13,598	6,173	12,898	4,378	4,806	-	41,853
Eliminated on disposals	-	-	(2,668)	-	(2,305)	-	(4,973)
At 31 December 2021	74,226	19,986	71,451	29,037	12,597	-	207,297
CARRYING VALUES							
At 31 December 2021	255,755	40,962	110,942	7,870	24,500	13,125	453,154
At 31 December 2020	262,351	40,408	122,892	9,976	23,712	15,484	474,823

15. 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

As at 31 December 2020, the Group had pledged property, plant and equipment with a net book value of RMB65,539,000 to secure certain bank borrowings and banking facilities granted to the Group. The pledged property, plant and equipment have been released during the current year.

16. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Building RMB'000	Total RMB'000
As at 31 December 2021			
Carrying amount	43,309	33,404	76,713
As at 31 December 2020			
Carrying amount	44,505	12,357	56,862
For the year ended 31 December 2021			
Depreciation charge	1,196	12,575	13,771
For the year ended 31 December 2020			
Depreciation charge	1,088	10,169	11,257

	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Expense relating to short-term leases	7,682	5,828
Total cash outflow for leases	(21,689)	(17,028)
Additions to right-of-use assets	33,622	3,133

16. RIGHT-OF-USE ASSETS - continued

For both years, the Group leases offices premises and warehouses for its operations. For the year ended 31 December 2021, lease contracts are entered into for fixed term of 1 year to 5 years (2020: 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.

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 2020, the Group had pledged right-of-use assets with a net book value of RMB15,506,000 to secure general banking facilities granted to the Group. The pledged right-of-use assets have been released during the current year.

The Group regularly entered into short-term leases for offices premises and warehouses. As at 31 December 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

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

17. INTERESTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Unlisted	30,000	-
Share of post-acquisition profits and other comprehensive income, net of dividends received	352,930	335,355
	2,687,286	2,639,711
Fair value of listed investment (note)	4,849,508	6,231,377

Note: As at 31 December 2021, the fair value of the Group's interest in its listed associate, Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical"), of which its shares are listed on the Shanghai Stock Exchange (the "SSE"), was approximately RMB4,850 million (2020: approximately RMB6,231 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.

17. INTERESTS IN ASSOCIATES - continued

As at 31 December 2021 and 2020, 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
			2021	2020	
Tibet Pharmaceutical (Note a)	Tibet	Tibet	37.36%	37.36%	Production of medicines and sale of drugs
Zhuhai Kangmai Biotechnology Co., Ltd. (Note b)	PRC	PRC	50.00%	N/A	Research and development of antibodies medicines

Notes:

(a) During the year ended 31 December 2020, Tibet Pharmaceutical went through a capitalisation from capital reserve and the Group's shares holding increased from 66,156,114 ordinary shares as at 31 December 2019 to 92,618,560 ordinary shares as at 31 December 2020. There is no change in the Group's ownership interest in Tibet Pharmaceutical, remained at 37.36% as at 31 December 2021 and 2020. 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 2021, there is a goodwill of approximately RMB1,654,481,000 (2020: RMB1,654,481,000).

As at 31 December 2021 and 2020, no impairment indicator on interest in Tibet Pharmaceutical and no impairment assessment was carried out.

(b) In October 2021, the Group established Zhuhai Kangmai Biotechnology Co., Ltd. ("Zhuhai Kangmai") with an independent third party, Trinomab Biotech Co., Ltd ("Trinomab"). Trinomab is responsible for drug discovery and preclinical studies, while the Group is responsible for clinical development, registration, and commercialization, etc. Each party owns 50% of equity interest in Zhuhai Kangmai, however, the Group appointed one director out of three directors and is able to exercise significant influence over Zhuhai Kangmai.

As at 31 December 2021, no impairment indicator on interest in Zhuhai Kangmai and no impairment assessment was carried out.

17. INTERESTS IN ASSOCIATES - continued

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.

Tibet Pharmaceutical

	31.12.2021 RMB'000	31.12.2020 RMB'000
Current assets	2,181,907	1,351,115
Non-current assets	1,620,749	1,593,173
Current liabilities	(1,109,665)	(333,077)
Non-current liabilities	(47,970)	(22,829)

17. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Tibet Pharmaceutical - continued

	2021 RMB'000	2020 RMB'000
Revenue	2,138,587	1,373,105
Profit for the year	213,027	420,663
Other comprehensive expense for the year	(29,012)	(100,064)
Total comprehensive income for the year	184,015	320,599
Dividends received from the associate during the year	47,235	70,125

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

	31.12.2021 RMB'000	31.12.2020 RMB'000
Net assets of Tibet Pharmaceutical	2,645,021	2,588,382
Non-controlling interests	(14,661)	(12,297)
	2,630,360	2,576,085
Proportion of the Group's ownership interest in Tibet Pharmaceutical	37.36%	37.36%
	982,702	962,425
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	(4,224)	(1,841)
Carrying amount of the Group's interest in Tibet Pharmaceutical	2,657,605	2,639,711

17. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Zhuhai Kangmai

	31.12.2021 RMB'000
Current assets	59,362
Current liabilities	-

	For the period from 20 October 2021 (date of incorporation) to 31 December 2021 RMB'000
Revenue	-
Loss for the period	(638)
Other comprehensive income for the period	-
Total comprehensive expense for the period	(638)
Dividends received from the associate during the period	-

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

	31.12.2021 RMB'000
Net assets of Zhuhai Kangmai	59,362
Proportion of the Group's ownership interest in Zhuhai Kangmai	50.00%
Carrying amount of the Group's interest in Zhuhai Kangmai	29,681

18. INTANGIBLE ASSETS

	Exclusive distribution rights	Patent rights	Product rights	Others	Total
	RMB'000 (Note a & Note b(i))	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000
COST					
At 1 January 2020 and 31 December 2020	2,111,920	320,431	872,656	-	3,305,007
Acquired on acquisition of subsidiaries (note 42)	101,509	38,706	-	90	140,305
At 31 December 2021	2,213,429	359,137	872,656	90	3,445,312
AMORTISATION					
At 1 January 2020	444,575	141,293	235,281	-	821,149
Charge for the year	101,751	18,963	41,228	-	161,942
At 31 December 2020	546,326	160,256	276,509	-	983,091
Charge for the year	112,380	10,534	41,229	53	164,196
At 31 December 2021	658,706	170,790	317,738	53	1,147,287
IMPAIRMENT LOSS					
At 1 January 2020	24,730	-	-	-	24,730
Recognised in the year	-	57,598	-	-	57,598
At 31 December 2020 and 2021	24,730	57,598	-	-	82,328
CARRYING VALUES					
At 31 December 2021	1,529,993	130,749	554,918	37	2,215,697
At 31 December 2020	1,540,864	102,577	596,147	-	2,239,588

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 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 considered 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 was recognised for the year ended 31 December 2019.

During the years ended 31 December 2021 and 2020, management reviews the performance of Three Products and concludes that there is no indication that the impairment losses previously recognised no longer exist or have decreased.

As at 31 December 2021 and 2020, the exclusive distribution rights are fully impaired.

(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 2021, the carrying amount of the exclusive distribution right was approximately RMB1,437,217,000 (2020: RMB1,538,667,000).

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 annual sales target of respective years has been met. No additional annual sales target is required under the exclusive license agreement during the years ended 31 December 2021 and 2020.

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(iv) The Group acquired 100% of equity interest in Luqa Ventures Co., Limited ("Luqa") on 1 February 2021. This included the acquisition of the exclusive agency rights of prescription medical aesthetic products including Aethoxysklerol and other aesthetic medical drugs. The exclusive agency rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the exclusive agency 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 exclusive agency rights for the remaining term of the exclusive agency rights. As at the acquisition date, the exclusive agency rights of prescription medical aesthetic products owned by Luqa amounted to RMB101,509,000. As at 31 December 2021, the carrying amount was approximately RMB90,880,000.

The expected useful lives of the exclusive agency rights are ranging from 2 years to 10 years.

(b) Acquisition of exclusive distribution rights and patent rights

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

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(i) - continued

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.

During the year ended 31 December 2020, the management considers that there is an impairment indicator on the carrying amount of YiNuoShu as there is adverse change in the Group's market shares in selling YiNuoShu. Therefore, a full impairment loss of RMB57,598,000 was recognised for the year ended 31 December 2020.

During the year ended 31 December 2021, management reviews the performance of YiNuoShu and concludes that there is no indication that the impairment loss previously recognised no longer exist or have decreased.

As at 31 December 2021 and 2020, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were nil, nil and nil, respectively.

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 2021, the carrying amount of the exclusive distribution right and patent right of XiDaKang were approximately RMB1,896,000 and RMB1,478,000, respectively (2020: RMB2,197,000 and RMB1,708,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. Kangzhe Guangming, 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 Kangzhe Guangming 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 2021, the carrying amount of the patent right was approximately RMB15,973,000 (2020: RMB18,495,000).

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

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

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

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 2021, the carrying amount of the patent right of GanFuLe was approximately RMB3,973,000 (2020: RMB5,335,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(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 2021, the carrying amount was approximately RMB70,619,000 (2020: RMB77,039,000).

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

(v) The Group acquired 64.81% of equity interest in Shanghai Carnation Medical Technology Co., Ltd. ("Carnation") on 8 June 2021. This included the acquisition of the patent right of a medical aesthetic device, FUBA5200 Focused Ultrasound Body Contouring System. The patent right was measured at its fair value 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 patent right for the remaining term of the patent right. As at the acquisition date, the patent right of the medical aesthetic device owned by Carnation amounted to RMB38,706,000. As at 31 December 2021, the carrying amount was approximately RMB38,706,000.

The expected useful life of the patent rights is 10 years.

(c) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with an independent third party, Pharma Stulln GmbH ("Pharma") in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions ("SAR")), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorisation for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly. As at 31 December 2021, the carrying amount of the product right was approximately RMB47,703,000 (2020: RMB51,519,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

(c) Acquisition of product rights - continued

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet (the "Products") with two independent third parties, Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorisation in Switzerland and imported drug license in China of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan), at a consideration of US$25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2021, the carrying amount was approximately RMB105,521,000 (2020: RMB113,638,000).

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

(iii) On 25 March 2015, the Group entered into a series of agreements related to Combizym and Hirudoid (the "Purchased Products") with an independent third party, DKSH International AG, in connection with the purchase of (i) all trademarks regarding the Purchased Products; (ii) all market authorisations or similar licenses, certificates or approvals regarding the Purchased Products and all rights, benefits or other interests obtained; (iii) the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Purchased Products; and (iv) all books and records, commercial information and medical information related to the Purchased Products, with respect to Combizym in China, Hong Kong and Switzerland, and certain other designated countries or areas in Asia, and with respect to Hirudoid in China, at a consideration of Swiss Franc ("CHF") 76,600,000 (equivalent to approximately RMB486,019,000). As at 31 December 2021, the carrying amount was approximately RMB340,409,000 (2020: RMB366,100,000).

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 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 2021, the carrying amount was approximately RMB61,285,000 (2020: RMB64,890,000).

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

19. GOODWILL

	RMB'000
COST	
At 1 January 2020 and 31 December 2020	1,384,535
Arising on acquisition of subsidiaries (note 42)	496,644
At 31 December 2021	1,881,179
IMPAIRMENT LOSS	
At 1 January 2020	-
Impairment loss recognised during the year	170,000
At 31 December 2020	170,000
Impairment loss recognised during the year	20,000
At 31 December 2021	190,000
CARRYING VALUES	
At 31 December 2021	1,691,179
At 31 December 2020	1,214,535

For the purposes of impairment testing, the entire amount of goodwill has been allocated to seven (2020: five) CGUs, representing seven (2020: five) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical, Tibet Kangzhe Development, Luqa and Carnation. (2020: Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development). Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Hunan and Xili Pharmaceutical are engaged in production of medicines. Luqa is engaged in sales of medical aesthetic products. Carnation is engaged in research and development and manufacture of energy-based medical aesthetic devices. The carrying amounts of goodwill (net of accumulated impairment losses) allocated to these units are as follows:

	2021 RMB'000	2020 RMB'000
Tianjin Kangzhe	990,333	990,333
Kangzhe Hunan	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	178,090	198,090
Tibet Kangzhe Development	1,854	1,854
Luqa	460,002	-
Carnation	36,642	-
	1,691,179	1,214,535

19. GOODWILL - continued

The recoverable amounts of Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical, Tibet Kangzhe Development, Luqa and Carnation 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.

Tianjin Kangzhe

At 31 December 2021, 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 12.5% (2020: 12.1%). Tianjin Kangzhe's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2020: 3%). This growth rate is based on management's best estimate and past experience on the industry.

During the year ended 31 December 2021, no impairment loss was recognised.

During the year 31 December 2020, there was decline in financial performance of Tianjin Kangzhe for the year ended 31 December 2020 and expected continuous decline in the forecast period partly due to the negative effects by the novel coronavirus and adverse change in the Group's market shares in selling YiNuoShu. The directors of the Company had consequently determined impairment of goodwill amounted to approximately RMB170,000,000. The impairment loss had been included in "other gains or losses" line item. No impairment on other assets of Tianjin Kangzhe was considered necessary. The recoverable amount of Tianjin Kangzhe amounted to RMB941,879,000 as at 31 December 2020.

If the discount rate was changed to 13.1%, while other parameters remain constant, the recoverable amount of Tianjin Kangzhe as at 31 December 2020 would reduce to RMB844,664,000 and a further impairment of goodwill of RMB97,215,000 would be recognised.

Kangzhe Hunan

At 31 December 2021, 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 12.7% (2020: 12.3%). Kangzhe Hunan's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2020: 3%). This growth rate is based on management's best estimate and past experience on the industry. During the years ended 31 December 2021 and 2020, no impairment loss was recognised.

19. GOODWILL - continued

Xili Pharmaceutical

At 31 December 2021, 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 13.1% (2020: 13.4%). Xili Pharmaceutical's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2020: 3%). This growth rate is based on management's best estimate and past experience on the industry.

During the year 31 December 2021, there was decline in financial performance of Xili Pharmaceutical for the year and expected continuous decline in the forecast period. The directors of the Company had consequently determined impairment of goodwill amounted to approximately RMB20,000,000. The impairment loss had been included in "other gains or losses" line item. No impairment on other assets of Xili Pharmaceutical was considered necessary. The recoverable amount of Xili Pharmaceutical amounted to RMB363,040,000 as at 31 December 2021.

If the discount rate was changed to 14.1% while other parameters remain constant, the recoverable amount of Xili Pharmaceutical as at 31 December 2021 would reduce to RMB330,856,000 and a further impairment of goodwill of RMB16,739,000 would be recognised.

During the year ended 31 December 2020, no impairment loss was recognised.

Luqa

At 31 December 2021, 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 14.8% (2020: N/A). Luqa's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2020: N/A). This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2021, no impairment loss was recognised.

Carnation

At 31 December 2021, 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 24.2% (2020: N/A). Carnation's cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2020: N/A). This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2021, no impairment loss was recognised.

The goodwill of Sky United and Tibet Kangzhe Development was immaterial as at the end of both reporting periods. During the years ended 31 December 2021 and 2020, no impairment loss was recognised.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Financial assets at FVTPL

	2021 RMB'000	2020 RMB'000
Listed investments:		
Equity securities listed on the Shanghai Stock Exchange (the "SSE") (Note i)	610	-
Unlisted investments:		
Capital funds (Note ii)	382,824	3,884
Equity securities (Note iii)	594,440	-
	977,264	3,884
Total	977,874	3,884

Notes:

(i) The listed equity investment represents ordinary shares of one entity listed on the SSE. The investment is held for trading and its fair value is based on the quoted market price.

(ii) During the year ended 31 December 2021, the Group further invested approximately RMB 330,408,000 (2020: RMB 1,715,000) into various capital funds. As at 31 December 2021, the fair values of these capital funds amounted to RMB382,824,000 (2020: RMB3,884,000), and a gain on change in fair value of RMB48,532,000 (2020: loss of RMB567,000) has been recognised in profit and loss.

A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, also had invested in certain capital funds invested by the Group. As at 31 December 2021, the fair values of these capital funds were RMB 6,117,000 (2020:RMB 3,884,000)

(iii) During the year ended 31 December 2021, the Group invested approximately RMB527,316,000 in unlisted equity investments. As at 31 December 2021, the fair values of the equity investments amounted to RMB594,440,000, and a gain on change in fair value of RMB67,124,000 has been recognised in profit and loss.

A&B also had equity interest in a certain unlisted equity investment invested by the Group. As at 31 December 2021, the fair value of the unlisted equity investment was RMB1,767,000 (2020: nil)

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

	2021 RMB'000	2020 RMB'000
Listed investments:		
Equity securities listed on		
London Stock Exchange Plc (the "LSE") (Note i)	39,330	33,244
Euronext N.V. (the "ENV") (Note ii)	24,239	-
	63,569	33,244
Unlisted investments:		
Equity securities (Note iii)	336,902	382,341
Total	400,471	415,585

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:

(i) The listed equity investment represents ordinary shares of the following two (2020: two) entities listed on LSE. The investments are denominated in British Pound ("GBP") and the fair values are based on the quoted market price.

(a) Midatech Pharma Plc ("Midatech") - the Group invested approximately GBP4,000,000 (equivalent to RMB34,705,000) in Midatech during year ended 31 December 2019.

(b) Destiny Pharma plc ("Destiny") - the Group first invested approximately GBP3,000,000 (equivalent to RMB 26,291,000) in Destiny during the year ended 31 December 2017. The Group further invested GBP1,000,000 (equivalent to RMB8,435,000) in Destiny during the year ended 31 December 2020.

As at 31 December 2021, the fair values of these two equity securities amounted to RMB39,330,000 (2020: RMB33,244,000), and a gain on change in fair value of RMB6,086,000 (2020: a fair value loss of RMB9,327,000) has been recognised in other comprehensive income.

As at 31 December 2021 and 2020, A&B also had equity interest in Midatech and Destiny.

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

Notes: - continued

(ii) The listed equity investment represents ordinary shares of Acticor Biotech ("Acticor"), which became listed on ENV on 1 November 2021. The Group first invested approximately EUR 4,000,000 (equivalent to RMB30,607,000) in Acticor during the year ended 31 December 2018. The Group further invested EUR1,000,000 (equivalent to RMB7,595,000) in Acticor during the year ended 31 December 2021. The investment is denominated in EUR and the fair value is based on the quoted market price.

As at 31 December 2021, the fair value of the equity investment amounted to RMB24,239,000 (2020: RMB30,607,000), and a loss on change in fair value of RMB13,963,000 (2020: nil) has been recognised in other comprehensive income.

As at 31 December 2021 and 2020, A&B also had equity interest in Acticor.

(iii) The unlisted equity investments represent the Group's equity interests in the various biotech/ pharmaceutical companies.

During the year ended 31 December 2021, the Group further invested approximately RMB2,606,000 (2020: RMB 146,773,000) into the unlisted equity investments. In additions, one unlisted equity investment, Acticor was transferred into listed investment (see (ii) above) during the year ended 31 December 2021, of which the balance was RMB30,607,000 as at 31 December 2020.

As at 31 December 2021, the fair values of the equity investments amounted to RMB336,902,000 (2020: RMB382,341,000). 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 2021, a loss on change in fair value of RMB17,438,000 (2020: nil) has been recognised in other comprehensive income.

A&B also had equity interest in certain unlisted equity investments invested by the Group. As at 31 December 2021, the fair values of these unlisted equity investments were RMB222,646,000 (2020:RMB239,709,000)

21. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	24,993	9,920
Work in progress	24,257	9,328
Finished goods	423,348	361,967
	472,598	381,215

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2021 RMB'000	2020 RMB'000
Trade receivables	1,405,322	1,056,176
Less: Allowance for credit losses	(9,533)	(8,228)
	1,395,789	1,047,948
Bills receivables	453,350	445,998
Purchase prepayments	213,125	137,360
Other receivables and deposits	141,738	74,300
	2,204,002	1,705,606

As at 1 January 2020, trade receivables from contracts with customers amounted to RMB1,001,862,000.

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.

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS - continued

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:

	2021 RMB'000	2020 RMB'000
Trade receivables		
0 - 90 days	1,297,684	1,034,677
91 - 365 days	98,105	13,271
	1,395,789	1,047,948
Bill receivables		
0 - 90 days	306,457	276,546
91 - 120 days	51,281	45,732
121 - 180 days	95,612	123,720
	453,350	445,998

As at 31 December 2021, total bills receivables amounting to RMB453,350,000 (2020: RMB445,998,000) are held by the Group. All bills receivables by the Group are accepted by banks with a maturity period of less than six months.

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB56,942,000 (2020: RMB10,872,000) which are past due at the reporting date. Included in the past due balances, RMB30,570,000 (2020: RMB3,604,000) 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 2021 and 2020 are set out in note 36.

23. DEPOSITS PAID FOR ACQUISITION OF INTANGIBLE ASSETS

	2021 RMB'000	2020 RMB'000
Deposits paid for acquisition of intangible assets	790,483	628,989

Note: Included in the deposits paid for acquisition of intangible assets, mainly approximately RMB402,223,000 (2020: RMB402,223,000), RMB106,974,000 (2020: RMB106,974,000), RMB40,824,000 (2020: RMB40,824,000), RMB32,625,000 (2020: nil), RMB30,000,000 (2020: nil), RMB27,904,000 (2020: RMB27,904,000), RMB18,000,000 (2020:nil) and RMB13,446,000 (2020: RMB13,446,000), have been paid to Sun Pharmaceutical Industrial Ltd., Gelesis Inc., Medac Gesellschaft Fur Klinische Speziallpraparate M.B.H, Cosmo Technologies Ltd, Jiangxi Shimei Pharmaceutical Co., Ltd, Cadila Healthcare Limited, Shandong Innovative Drug Research and Development Co., Ltd and Can-Fite BioPharma, respectively. All these companies are independent third parties not connected with the Group. The deposits were paid for certain exclusive distribution/ product rights of medical products to be approved by relevant regulatory bodies for the sales in specific territories.

24. AMOUNT DUE FROM AN ASSOCIATE

As at 31 December 2021, the balance of approximately RMB30,000,000 (2020: RMB30,000,000) was non-trade nature and non-interest bearing, represented deposit to Tibet Pharmaceutical for exclusive distribution right.

As at 31 December 2021, the balance of approximately RMB320,036,000 (2020: RMB207,271,000) was trade nature and non-interest bearing, 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 2021 was aged within three months (2020: 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 0.30% to 3.40% (2020: 0.30% to 1.95%) per annum. Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2021 RMB'000	2020 RMB'000
Euro ("EUR")	9,566	8,459
Hong Kong Dollar ("HK$")	24,398	13,613
United States Dollar ("US$")	14,109	10,411
Confederation Helvetica Franc ("CHF")	2,059	1,557
Great Britain Pound ("GBP")	1,802	3,180

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:

	2021 RMB'000	2020 RMB'000
0 - 90 days	142,639	128,643
91 - 365 days	2,757	3,185
Over 365 days	502	2,980
Trade payables	145,898	134,808
Payroll and welfare payables	280,000	205,357
Other tax payables	38,031	90,935
Accrued promotion expenses	61,229	84,233
Accrued sales rebates	50,000	25,000
Accruals	35,098	44,872
Other payables	19,291	34,079
	629,547	619,284

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

27. LEASE LIABILITIES

	2021 RMB'000	2020 RMB'000
Lease liabilities payable:		
Within one year	16,922	7,266
Within a period of more than one year but not more than two years	10,530	4,888
Within a period of more than two years but not more than five years	7,280	752
	34,732	12,906
Less: Amount due for settlement with 12 months shown under current liabilities	(16,922)	(7,266)
Amount due for settlement after 12 months shown under non-current liabilities	17,810	5,640

28. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Receipts in advance from customers - finished goods	23,715	14,406

As at 1 January 2020, contract liabilities amounted to RMB12,939,000.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	14,406	12,939

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 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

	2021 RMB'000	2020 RMB'000
Bank loans	1,677,573	587,251
Analysed as:		
Secured	-	10
Unsecured	1,677,573	587,241
	1,677,573	587,251

	2021 RMB'000	2020 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	1,103,760	10
Within a period of more than one year but not exceeding two years	573,813	117,448
Within a period of more than two years but not exceeding five years	-	469,793
	1,677,573	587,251
Less: Amounts due within one year shown under current liabilities	(1,103,760)	(10)
Amounts shown under non-current liabilities	573,813	587,241

* 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:

	2021 RMB'000	2020 RMB'000
Fixed-rate borrowings		
Denominated in RMB (5.23% per annum as at 31 December 2020)	-	10
Variable-rate borrowings		
Denominated in HK$ range from 0.77% to 0.85% per annum as at 31 December 2021 (Note a)	1,103,760	-
Denominated in US$ range from 0.80% to 1.46% per annum as at 31 December 2021 (2020: from 1.44% to 1.49%) (Notes b & c)	573,813	587,241
Total	1,677,573	587,251

29. BANK BORROWINGS - continued

Notes:

(a) Variable rates range from Hong Kong Interbank Offered Rate ("HIBOR") plus 0.62% to HIBOR plus 0.7% as at 31 December 2021.

(b) Variable rates range from LIBOR plus 0.7% to LIBOR plus 1.25% as at 31 December 2021 (2020: LIBOR plus 1.25% to LIBOR plus 1.3%).

(c) As at 31 December 2021, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB573,813,000 (2020: RMB587,241,000). The principal amount of the variable-rate bank borrowings will be repayable on 24 March 2023 and 27 March 2023 (2020: 24 March 2023 and 27 March 2023). Details of the interest rate swaps are disclosed in note 32.

As at 31 December 2021, the Group had unutilised banking facilities of approximately RMB500,000,000 (2020: RMB1,478,227,000).

30. DEFERRED CONSIDERATION PAYABLES

	2021 RMB'000	2020 RMB'000
Non-current	736	1,487
Current	2,000	2,929
	2,736	4,416

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 2021, the carrying value amounting to RMB2,736,000 (2020: RMB2,487,000) 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 39(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 2021, the carrying value is nil (2020: GBP218,000 (equivalent to approximately RMB1,929,000)).

30. DEFERRED CONSIDERATION PAYABLES - continued

The movement of the deferred difference on initial recognition of financial instruments is shown as follows:

	RMB'000
At 1 January 2020	3,858
Charge to profit or loss	(1,929)
At 31 December 2020	1,929
Charge to profit or loss	(1,929)
At 31 December 2021	-

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 change on cash flow hedges	Unrealised profit of equity instruments at FVTPL	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	19,074	(27,588)	(63,964)	23	-	-	1,201	(71,254)
Credit to profit or loss for the year (note 11)	513	5,419	-	-	-	-	-	5,932
Credit to other comprehensive income	-	-	-	948	-	-	-	948
At 31 December 2020	19,587	(22,169)	(63,964)	971	-	-	1,201	(64,374)
Credit (charge) to profit or loss for the year (note 11)	244	3,018	-	-	(27,991)	15,027	-	(9,702)
Charge to other comprehensive income	-	-	-	(731)	-	-	-	(731)
Acquisitions of subsidiaries (note 42)	-	(12,469)	-	-	-	-	-	(12,469)
At 31 December 2021	19,831	(31,620)	(63,964)	240	(27,991)	15,027	1,201	(87,276)

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2021 RMB'000	2020 RMB'000
Deferred tax assets	36,299	21,759
Deferred tax liabilities	(123,575)	(86,133)
	(87,276)	(64,374)

31. DEFERRED TAX - continued

At 31 December 2021, the Group had unused tax losses of approximately RMB156,276,000 (2020: RMB50,553,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB93,186,000 (2020: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB63,090,000 (2020: RMB50,553,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2021 are tax losses of approximately RMB29,189,000 (2020: RMB20,001,000) 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 2021, tax losses of approximately RMB1,063,000 (2020: RMB2,051,000) was expired.

As at 31 December 2021, the Group had deductible temporary differences of RMB782,687,000 (2020: RMB717,183,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB79,324,000 (2020: RMB78,348,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB703,363,000 (2020: RMB638,835,000) 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 RMB7,077,285,000 (2020: RMB5,680,490,000) 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

	2021 RMB'000	2020 RMB'000
Assets:		
Foreign exchange forward contracts	-	682
Warrants	-	49
	-	731
Analysed as:		
Current assets	-	49
Non-current assets	-	682
	-	731
Liabilities:		
Foreign exchange forward contracts	(9,332)	-
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	(1,959)	(5,888)
	(11,291)	(5,888)
Analysed as:		
Non-current liabilities	(11,291)	(5,888)

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Foreign exchange forward contracts

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 2021 and 2020 are set out below:

At 31 December 2021 and 2020

Notional amount	Maturity date	Exchange rate range agreed
US$40,000,000	23 March 2023	US$1:RMB6.69 to RMB7.40
US$5,000,000	23 March 2022	US$1:RMB6.69 to RMB7.40
US$5,000,000	21 September 2022	US$1:RMB6.69 to RMB7.40

During the year ended 31 December 2021, the fair value loss of approximately RMB10,014,000 (2020: RMB26,740,000) has been recognised in "other gains and losses" line item (see note 7).

During the year ended 31 December 2020, the Group recognised a gain of approximately RMB13,634,000 at the maturity of the foreign exchange forward contract.

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 2021 and 2020.

The fair value of the derivative financial instrument as at 31 December 2021 was approximately nil (2020: GBP7,000 (equivalent to approximately RMB49,000)) which is determined by Vigers Appraisal & Consulting Limited, a professional independent valuer, based on the Binomial Model.

The inputs used for the calculation of fair value of the derivative financial instrument are as follows:

	31 December 2020	31 December 2021
Share price	GBP0.265*	GBP0.183
Exercise price	GBP10*	GBP10
Expected volatility	120%	28%
Expected option life	1.2 years	0.2 years
Expected dividend yield	0%	0%
Risk-free rate	0%	-0.197%

* The terms of warrants have been changed during the year ended 31 December 2020 as a result of the share consolidation of the company listed on LSE.

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Warrants - continued

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
At 1 January 2020	770
Charge to profit or loss	(721)
At 31 December 2020	49
Charge to profit or loss	(49)
At 31 December 2021	-

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 2021 and 2020 are set out below:

At 31 December 2021

Notional amount (Note)	Carrying amount	Contract date	Maturity date	Receive	Pay
US$50,000,000	RMB1,838,000	27 March 2020	24 March 2023	LIBOR + 0.7%	1.74%
US$40,000,000	RMB121,000	27 March 2020	27 March 2023	LIBOR + 1.25%	1.89%

At 31 December 2020

Notional amount (Note)	Carrying amount	Contract date	Maturity date	Receive	Pay
US$50,000,000	RMB3,452,000	27 March 2020	24 March 2023	LIBOR + 1.30%	1.95%
US$40,000,000	RMB2,436,000	27 March 2020	27 March 2023	LIBOR + 1.25%	1.89%

Note: The notional amount will be expired on 24 March 2023 and 27 March 2023 (2020: 24 March 2023 and 27 March 2023), which are the same as corresponding bank borrowings.

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. During the year ended 31 December 2021, the fair value gain of approximately RMB3,929,000 (2020: fair value loss of approximately RMB5,746,000), income tax of approximately RMB731,000 (2020: RMB948,000), resulting in a net amount of approximately RMB3,198,000 (2020: RMB4,798,000) 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.

33. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2020, 31 December 2020 and 31 December 2021	20,000,000	765,218
Issued and fully paid		
At 1 January 2020	2,480,409	84,963
Shares repurchased and cancelled (Note)	(9,648)	(329)
At 31 December 2020	2,470,761	84,634
Shares repurchased and cancelled (Note)	(13,317)	(457)
At 31 December 2021	2,457,444	84,177

Note: During the year ended 31 December 2021, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	**No. of ordinary shares of US$0.005 each**	**Price per share**		**Aggregated consideration paid**
		Highest HK$	**Lowest** HK$	HK$
August 2021	2,190,000	15.62	14.60	32,748,420
September 2021	4,435,000	15.10	14.04	65,378,180
November 2021	6,692,000	13.18	12.48	85,472,060
Total	13,317,000			183,598,660

33. SHARE CAPITAL - continued

During the year ended 31 December 2020, 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$0.005 each	Price per share		Aggregated consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
11 February 2020	9,648,000	10.30	10.04	98,164,100

The above ordinary shares were cancelled upon repurchase.

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 2021 and 2020.

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.

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.

34. RESERVES - continued

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, obligation arising from put options 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, new share issues and share buy-backs.

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets		
Derivative financial instruments		
- foreign exchange forward contracts	-	682
- warrants	-	49
Financial assets at amortised cost	5,758,531	4,473,943
Equity instruments at FVTOCI	400,471	415,585
Financial assets at FVTPL	977,874	3,884
Financial liabilities		
At amortised cost	(2,277,911)	(965,911)
Derivative financial instruments		
- foreign exchange forward contracts	(9,332)	-
Derivative instruments under hedge accounting		
(cash flow hedges-interest rate swaps)	(1,959)	(5,888)

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, equity instruments at FVTOCI, trade and other receivables, loan receivable, amount due from an associate, derivative financial instruments, bank balances and cash, trade and other payables, lease liabilities, bank borrowings, deferred consideration payables and obligation arising from put options. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk and other price risk), credit risk, liquidity risk and risks arising from the interest rate benchmark reform. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 29), lease liabilities (see note 27) and obligation arising from put options (see note 42(a)). 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 HIBOR and 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 LIBOR bank 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).

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

Interest income of RMB81,853,000 was earned (2020: RMB61,031,000) from financial assets that are measured at amortised cost (including cash and cash equivalents) for the year ended 31 December 2021.

Interest expense of RMB28,270,000 was incurred (2020: RMB27,520,000) on financial liabilities not measured at fair value through profit or loss that are measured at amortised cost for the year ended 31 December 2021.

Sensitivity analysis

The directors of the Company consider that the interest rate risk in relation to bank balances is not significant as the fluctuation of the interest rates on bank balances is minimal and therefore, bank balances are not included in the sensitivity analysis.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Sensitivity analysis - continued

The sensitivity analyses below have been determined based on the exposure to interest rates in relation to HIBOR bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2020: N/A) increase or decrease in variable-rate bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2020: nil basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2021 would decrease/increase by RMB4,139,000 (2020: N/A). This is mainly attributable to the Group's exposure to interest rates on its HIBOR bank borrowings.

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 44% (2020: 44%) 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 assets at FVTPL, trade and other receivables, loan receivable 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	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
US$	519,361	14,295	578,364	590,140
EUR	19,167	8,459	30,781	6,171
GBP	8,827	3,180	-	1,929
HK$	26,007	14,806	1,103,760	-
CHF	3,803	1,557	-	-

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% (2020: 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% (2020: 5%) change in foreign currency rates. The sensitivity analysis includes financial assets at FVTPL, derivative financial instruments, loan receivable, 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% (2020: 5%) against the relevant foreign currencies. If there is a 5% (2020: 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:

	2021 RMB'000	2020 RMB'000
RMB (as functional currency of the relevant group entities) against US$	2,213	21,594
RMB (as functional currency of the relevant group entities) against EUR	436	(86)
RMB (as functional currency of the relevant group entities) against GBP	(331)	(47)
RMB (as functional currency of the relevant group entities) against HK$	40,416	(555)
RMB (as functional currency of the relevant group entities) against CHF	(143)	(58)

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 and ENV.

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% (2020:10%) increase and decrease in the quoted market price of the equity securities. 10% (2020: 10%) is the sensitivity rate used when reporting other price 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 measured at FVTOCI. If there is a 10% (2020:10%) higher/lower in the quoted market price of the equity securities, the other comprehensive income would be increased/decreased by RMB6,357,000 (2020: RMB3,324,000).

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 2021 and 2020.

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 and amount due from an associate. 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 assets 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 almost accounted for 100% (2020: 100%) of the total trade receivables as at 31 December 2021. 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 credit-impaired trade receivables, 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 and forward looking information. Impairment of RMB381,000 (2020: nil) is recognised for the year ended 31 December 2021. 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 assessed the loss allowance for trade related balance with the associate on lifetime ECL basis and non-trade related balance with the associate on 12m ECL basis. 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 at the reporting date of these amounts and the trade receivables due from the associate have been subsequently settled. For the years ended 31 December 2021 and 2020, the Group assessed the ECL for amount due from an associate to be insignificant and thus no loss allowance was recognised.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Other receivables and deposits

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 at the reporting date of these amounts and most of the other receivables have been subsequently settled. For the years ended 31 December 2021 and 2020, the Group assessed the ECL for other receivables and deposits to be insignificant and thus no loss allowance for credit losses was recognised.

Loan receivable

For loan receivable, the directors of the Company estimate the estimated loss rates of loan receivables based on historical credit loss experience of the debtors as well as the fair value of the collateral pledged by the customers to the loan receivables. Based on assessment by the management, the loss given default is low in view of the estimated realised amount of ultimate disposal of the collaterals and the management considers the ECL for loan receivables is insignificant and therefore no loss allowance was recognised for the year ended 31 December 2021.

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

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

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	2021 Gross carrying amount		2020 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	1,399,321		1,051,099	
		Loss	Credit-impaired	6,001	1,405,322	5,077	1,056,176
Bills receivables (Note 2)	22	Low risk	12m ECL	453,350		445,998	
Amount due from an associate (Notes 2 and 3)	24	Low risk	12m ECL	30,000		30,000	
			Lifetime ECL - Not credit-impaired	320,036	350,036	207,271	237,271
Bank balances (Note 2)	25	Low risk	12m ECL	3,385,739		2,668,426	
Other receivables and deposits (Note 2)	22	Low risk	12m ECL	141,738		74,300	
Loan receivable (Note 2)		Low risk	12m ECL	31,879		-	

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 credit-impaired balances, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

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 2021 and 2020 within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amount of RMB6,001,000 as at 31 December 2021 (2020: RMB5,077,000) were assessed individually.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes: - continued

(1) - continued

Gross carrying amount

	2021		2020	
Internal credit rating	Average loss rate	Trade receivables	Average loss rate	Trade receivables
		RMB'000		RMB'000
Normal risk	0.1%	1,313,638	0.2%	1,030,013
Doubtful	2.0%	85,683	2.8%	21,086
		1,399,321		1,051,099

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 2021, the Group provided RMB381,000 (2020: nil) impairment allowance for trade receivables based on provision matrix. Impairment allowance of RMB924,000 (2020: nil) were made on credit-impaired debtors.

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 2020	3,151	5,185	8,336
Write-offs	-	(108)	(108)
As at 31 December 2020	3,151	5,077	8,228
Impairment losses recognised	381	924	1,305
As at 31 December 2021	3,532	6,001	9,533

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes: - continued

(1) - continued

Gross carrying amount - continued

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.

(2) The Group assessed the loss allowance for bills receivables, other receivables, bank balances, amount due from an associate and loan receivable 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 balances has been provided during the years ended 31 December 2021 and 2020 and 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 2021, the Group has available unutilised banking facilities of approximately RMB500,000,000 (2020: RMB1,478,227,000) respectively. Details of which are set out in note 29.

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative instruments. 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. The maturity dates for 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.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments, The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual settlement dates as the management of the Group considers that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

	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 2021
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2021					
Non-derivative financial liabilities					
Trade and other payables	-	445,189	-	445,189	445,189
Deferred consideration payables	10.00	2,000	1,000	3,000	2,736
Variable-rate bank borrowings	1.15	1,116,496	582,101	1,698,597	1,677,573
Obligation arising from put options	8.00	-	175,133	175,133	152,413
Lease liabilities	4.75	17,726	19,543	37,269	34,732
		1,581,411	777,777	2,359,188	2,312,643
Derivative financial liabilities					
Interest rate swap		3,434	635	4,069	1,959
Foreign exchange forward contracts		2,524	6,808	9,332	9,332
		5,958	7,443	13,401	11,291

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

	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 2020
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2020					
Non-derivative financial liabilities					
Trade and other payables	-	374,244	-	374,244	374,244
Deferred consideration payables	5.43	2,929	2,000	4,929	4,416
Fixed rate bank borrowings	5.23	10	-	10	10
Variable-rate bank borrowings	1.92	-	655,084	655,084	587,241
Lease liabilities	4.75	9,272	6,536	15,808	12,906
		386,455	663,620	1,050,075	978,817
Derivative financial liabilities					
Interest rate swap		2,790	3,487	6,277	5,888

Interest rate benchmark reform

As listed in note 29, several of the Group's HIBOR and LIBOR bank loans will or may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist.

(i) Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

36. FINANCIAL INSTRUMENTS - continued

Interest rate benchmark reform - continued

HIBOR - continued

(i) Risks arising from the interest rate benchmark reform - continued

Interest rate related risks - continued

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

Litigation risk

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

(ii) Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, new contracts entered into by the Group are linked to the relevant alternative benchmark rates or interest rates which are not subject to reform to the extent feasible. Otherwise, the Group ensured the relevant contracts include detailed fallback clauses clearly referencing the alternative benchmark rate and the specific triggering event on which the clause is activated.

During the year, for a floating rate loan that is linked to HIBOR, the Group had confirmed with the relevant counterparty HIBOR will continue to maturity.

36. FINANCIAL INSTRUMENTS - continued

Interest rate benchmark reform - continued

HIBOR *- continued*

(ii) Progress towards implementation of alternative benchmark interest rates - continued

The Group has no plan to transition the majority of its remaining LIBOR-linked contracts through introduction of, or amendments to, fallback clauses into the contracts which will change the basis for determining the interest cash flows from LIBOR to alternative reference rate at an agreed point in time.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at 31 December 2021. The amounts of liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

Financial instruments prior to transition	Maturing in	Carrying amounts/ notional amounts	Hedge accounting	Transition progress for financial instruments
		RMB$'000		
Bank loans linked to LIBOR	24 March 2023	318,785	Designated in cash flow hedge	LIBOR will continue till maturity
Bank loans linked to LIBOR	27 March 2023	255,028	Designated in cash flow hedge	LIBOR will continue till maturity
Bank loans linked to HIBOR	28 April 2022	490,560	N/A	HIBOR will continue till maturity
Bank loans linked to HIBOR	7 September 2022	613,200	N/A	HIBOR will continue till maturity

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).

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/liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	31/12/2021	31/12/2020			
1) Interest rate swaps classified as derivative financial instruments	Liabilities - RMB1,959,000	Liabilities - RMB5,888,000	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	Liabilities - RMB9,332,000	Assets - RMB682,000	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 equity securities	Listed equity securities on the LSE and ENV - RMB63,569,000	Listed equity securities on the LSE - RMB33,244,000	Level 1	Quoted bid prices in an active market.	Nil
4) Equity instruments at FVTOCI - unlisted equity securities	Assets - RMB292,264,000	Assets - RMB283,445,000	Level 2	Recent Transaction method, quoted bid prices in an inactive market	Nil
5) Equity instruments at FVTOCI - unlisted equity securities	Unlisted equity investments - RMB44,638,000	Unlisted equity investments - RMB98,896,000	Level 3	Market return method, take the return on a listed of comparable indices	Market return method take the return on a listed of comparable indices since the venture nature of the investment provide more relevent comparison. (Note c)
6) Financial asset at FVTPL - listed equity securities	Assets - RMB610,000	Nil	Level 1	Quoted bid prices in an active market.	Nil
7) Financial asset at FVTPL - unlisted equity securities	Assets - RMB338,132,000	Nil	Level 2	Recent Transaction method, quoted bid prices in an inactive 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/liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	31/12/2021	31/12/2020			
8) Financial asset at FVTPL - Capital funds	Assets - RMB382,824,000	Assets - RMB3,884,000	Level 3	Market approach by applying market multiples such as the ratio of market capital to net book value from comparable companies.	The ratio of market capital to net book value from comparable companies is determined by the mean of comparable companies as at the valuation date (Note a)
9) Financial assets at FVTPL - unlisted equity securities	Assets - RMB256,308,000	Nil	Level 3	Current value method	Discount for lack of marketability taking into account the external valuer's estimate on the length of time and effort required by the management to dispose of the equity interest which is determined as 25%; Minority discount estimated by external valuer of 15 percent deduction in value to reflect the minority discount (Note b)
10) Warrant classified as derivative financial instruments - FVTPL	Nil	Assets - RMB49,000	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 (Note d)

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

Sensitivity analysis

Notes:

(a) Financial asset at FVTPL - Capital funds

The higher the ratio of market capital to net book value from comparable companies, the higher the fair value of the equity instrument, and vice versa. The higher of the discount for lack of marketability, the lower the fair value of the equity instrument, and vice versa. No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.

(b) Financial assets at FVTPL - unlisted equity securities

No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.

(c) Equity instruments at FVTOCI - unlisted equity securities

If the indexes used in the valuation model had been 5% higher/lower while all other variables were held constant, the Group's fair value of equity instruments as at 31 December 2021 would have increased/decreased by approximately RMB49,000 (2020: RMB351,000).

(d) Derivative financial instruments - Warrant

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 2021 would have increased/decreased by nil (2020: RMB30,000).

(ii) Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI	Financial assets at FVTPL	Derivative financial instrument - warrant	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020	97,030	2,736	770	100,536
Purchases	1,866	1,715	-	3,581
Total losses				
- in profit or loss	-	(567)	(721)	(1,288)
As at 31 December 2020	98,896	3,884	49	102,829
Purchases	-	574,714	-	574,714
Transfers into level 1 upon the equity securities listed on ENV	(30,607)	-	-	(30,607)
Total gains (losses)				
- in profit or loss	-	60,534	(49)	60,485
- in other comprehensive income	(23,651)	-	-	(23,651)
As at 31 December 2021	44,638	639,132	-	683,770

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(iii) Fair value of the Group's 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 used in financing activities.

	Bank borrowings	Deferred consideration payables	Dividend payables	Lease liabilities	Obligation rising form put options	Total
	RMB'000 (note 29)	RMB'000 (note 30)	RMB'000 (note 13)	RMB'000 (note 27)	RMB'000	RMB'000
At 1 January 2020	693,909	15,843	-	19,879	-	729,631
Financing cash flows	(92,454)	(9,810)	(834,129)	(11,200)	-	(947,593)
Release on deferred difference on initial recognition of financial instruments	-	(1,929)	-	-	-	(1,929)
Dividends declared	-	-	834,129	-	-	834,129
Finance costs	26,109	317	-	1,094	-	27,520
Net foreign exchange gain	(40,313)	(5)	-	-	-	(40,318)
Commencement of new leases	-	-	-	3,133	-	3,133
At 31 December 2020	587,251	4,416	-	12,906	-	604,573
Financing cash flows	1,061,968	-	(1,154,834)	(14,007)	-	(106,873)
Release on deferred difference on initial recognition of financial instruments	-	(1,929)	-	-	-	(1,929)
Dividends declared	-	-	1,154,834	-	-	1,154,834
Finance costs	15,397	249	-	2,211	10,413	28,270
Net foreign exchange gain	12,957	-	-	-	-	12,957
Commencement of new leases	-	-	-	33,622	-	33,622
Obligation rising from put options	-	-	-	-	142,000	142,000
At 31 December 2021	1,677,573	2,736	-	34,732	152,413	1,867,454

38. capital commitments

	2021 RMB'000	2020 RMB'000
Capital expenditure in respect of the acquisition of below items contracted for but not provided in the consolidated financial statements		
- property, plant and equipment	653	17,399
- financial assets at FVTPL	835,502	-
- interests in associate	90,000	-

39. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related financial parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below, in addition to the transactions and balances disclosed elsewhere in the consolidated financial statements.

(a) The Group entered into the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2021 RMB'000	2020 RMB'000
Tibet Pharmaceutical	Associate	Promotion income	1,046,701	609,021
Tibet Pharmaceutical	Associate	Service fee	1,698	1,698
Tibet Pharmaceutical	Associate	Purchase of goods	2,718	-

(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 2021 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 2021 and 2020.

(c) On 8 May 2015, A&B entered into agreements with Faron Pharmaceuticals, Ltd ("Faron"), to acquire 15.72% of the shareholding of Faron, assets related to a drug, 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 "Acquisition of Assets"). 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 of Assets 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 2021 and 2020.

39. RELATED PARTY TRANSACTIONS - continued

(d) On 31 July 2018, 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 2021 and 2020. 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 net sales stipulated in the agreement.

(e) On 14 August 2018, the Group entered into an asset transfer and license agreement with Blueberry Therapeutics Limited ("Blueberry"), which is one of Group's unlisted equity investments under note 20(b)(iii). 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 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.

As the milestone as well as the commercialisation of Product of BB2603 has not yet been achieved as at 31 December 2021 and 2020, 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 2021 and 2020.

39. RELATED PARTY TRANSACTIONS - continued

(f) On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the portable neurostimulation devices (the "Product of PoNS") developed by or for Helius Medical Technologies group ("Helius"), which is one of Group's unlisted equity investments under note 20(b)(iii). 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 2021, 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 2021 and 2020.

(g) 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"). Neurelis is one of Group's unlisted equity investments under note 20(b)(iii). 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 NRL-1 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 2021, 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 2021 and 2020.

(h) On 19 September 2018, the Group entered into license and collaboration agreement with VAXIMM AG ("VAXIMM"), which is one of Group's unlisted equity investments under note 20(b)(iii). 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 2021 and 2020.

39. RELATED PARTY TRANSACTIONS - continued

(i) On 29 January 2019, 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 Secura Bio) 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 2021 and 2020.

(j) 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 2021 and 2020.

(k) The key management personnel includes solely the directors of the Company and the compensation paid to them as disclosed in note 9.

40. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

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.

40. RETIREMENT BENEFITS SCHEMES- continued

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 RMB136,722,000 (2020: RMB28,991,000).

41. EMPLOYEE BENEFIT SCHEME

The 2009 Scheme was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think appropriate select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

41. EMPLOYEE BENEFIT SCHEME - continued

(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").

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 0% 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.

41. EMPLOYEE BENEFIT SCHEME - continued

A summary of some of the principal terms of the Bonus Scheme is set out in below: - continued

(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 2021, the Company recognised an expense of nil (2020: RMB25,000,000) on the Master Scheme based on the Group's financial performance. Nil (2020: RMB25,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

42. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of Luqa

On 1 February 2021, the Group entered into a share purchase agreement (the "Luqa Agreement") to acquire 100% equity interest in Luqa from several independent third parties (the "Sellers"). Luqa is a dermatology specialty company incorporated in Hong Kong, its products mainly includes dermatology prescription medicines, medical devices and medical aesthetic products. The purpose of the acquisition is to enrich the dermatology product portfolio of the Group, and enable the Group to enter into medical aesthetic field after acquiring the product rights owned by Luqa. It would have a big synergistic effect by taking full advantage of the promotion system and channel resource of the Group. The above acquisition had been completed on 1 February 2021 (the "Completion Date") and accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	513,000
Consideration Shares and Bonus Share transferred (note i)	106,500
Put options on the Consideration Shares and Bonus Share (note ii)	57,264
	676,764

42. ACQUISITIONS OF SUBSIDIARIES - continued

(a) Acquisition of Luqa - continued

Consideration transferred - continued

Notes:

(i) Pursuant to the Luqa Agreement, on the Completion Date, the Group transferred two issued ordinary shares (the "Consideration Shares") of a wholly-owned subsidiary, CMS Aesthetics Holdings Limited ("CMS Aesthetics"), representing 2% of the issued share capital of CMS Aesthetics to an entity designated by the Sellers to receive and hold the Consideration Shares.

In addition, on the Completion Date, the Group transferred one series A redeemable share (the "Bonus Share") of CMS Aesthetics, representing 1% of the issued share capital of CMS Aesthetics to an entity designated by the Sellers to receive and hold the Bonus Share.

(ii) As stipulated in the Luqa Agreement, the Sellers were granted the right to demand the Group to repurchase the Consideration Shares and Bonus Share, at any time from the Completion Date up to date falling on the fifth anniversary of the Completion Date at pre-determined exit prices.

Assets acquired and liabilities recognised at the date of acquisition:

	RMB'000
Property, plant and equipment	47
Intangible assets	101,599
Inventories	486
Trade and other receivables	129,046
Bank balances and cash	31,985
Trade and other payables	(43,725)
Tax recoverable	116
Deferred tax liabilities	(2,792)
	216,762

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB129,046,000 at the date of acquisition had gross contractual amounts of RMB129,046,000, being the best estimate of the contractual cash flows expected to be collected at acquisition date.

42. ACQUISITIONS OF SUBSIDIARIES - continued

(a) Acquisition of Luqa - continued

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	676,764
Less: fair value of identifiable net assets acquired	(216,762)
Goodwill arising on acquisition	460,002

Goodwill arose in the acquisition of Luqa was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, management team, sale and promotion channel and future market development of Luqa. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	RMB'000
Consideration paid in cash	513,000
Less: cash and cash equivalent balances acquired	(31,985)
	481,015

Impact of acquisition on the results of the Group:

Included in the profit for the year is RMB5,193,000 attributable to the additional business generated by Luqa. Revenue for the year includes RMB27,687,000 generated from Luqa.

Had the acquisition of Luqa been completed on 1 January 2021, revenue for the year of the Group would have been RMB8,333,928,000, and profit for the year would have been RMB2,961,788,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Luqa been acquired at the beginning of the current year, the directors of the Company calculated depreciation of property, plant and equipment and amortization of intangible assets based on the recognised amounts of property, plant and equipment and intangible assets at the date of the acquisition.

42. ACQUISITIONS OF SUBSIDIARIES - continued

(a) Acquisition of Luqa - continued

Share-based payment transaction:

Pursuant to the Luqa Agreement, on the Completion Date, the Group transferred one series A redeemable share (the "Employment Share") of CMS Aesthetics, representing 1% of the issued share capital of CMS Aesthetics to a key employee of Luqa with a condition that who shall serve the Group up to 31 December 2023. The key employee was granted the right to demand the Group to repurchase the Employment Share, at any time from the Completion Date up to date falling on the fifth anniversary of the Completion Date at pre-determined exit prices. The Employment Share and related put option were accounted for share-based payment under IFRS 2.

The estimated fair values of the employment share and related option granted on the date are RMB35,500,000 and RMB19,088,000, respectively. These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	1 February 2021
Weighted average share price (RMB'000)	35,500
Exercise price (RMB'000)	49,701
Expected volatility	39.267%
Expected life	5
Risk-free rate	3.001%
Expected dividend yield	0

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on the valuer's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the year ended 31 December 2021, the Group recognised share-based payment expense of RMB17,156,000 in relation to Employment Share and related put option granted by the Company.

Obligation arising from put options:

On the Completion Date, an amount representing the present value amounting to RMB142,000,000 of the amount that the Group could be required to pay the non-controlling shareholder pursuant to the put options over the Consideration Shares, Bonus Share and Employment Share in CMS Aesthetics held by the non-controlling shareholder, with a corresponding debit in non-controlling interests, is recognised in obligation arising from put options.

For the period from the Completion Date to 31 December 2021, interest on obligation arising from put options amounted to RMB10,413,000 was recognised in profit or loss.

42. ACQUISITIONS OF SUBSIDIARIES - continued

(b) Acquisition of Carnation

On 17 May 2021, the Group entered into an equity transfer agreement with an independent third party (the "Seller") to acquire 50% equity interest in Carnation at a cash consideration of RMB38,000,000. On the same date, the Group entered into a capital increase agreement with the Seller to subscribe additional 14.81% equity interest in Carnation at a consideration of RMB32,000,000. After completion, the Group holds 64.81% equity interest in Carnation. Carnation is incorporated in the PRC and is engaged in research and development and manufacture of medical aesthetic solution using focused ultrasound technology. The purpose of the acquisition is to acquire Carnation's focused ultrasound technology platform and to develop product rights for enriching the Group's photoelectric medical aesthetic product portfolio. The acquisition had been completed on 8 June 2021 and accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	38,000
Capital injection	32,000
	70,000

Assets acquired and liabilities recognised at the date of acquisition:

	RMB'000
Property, plant and equipment	13
Intangible assets	38,706
Inventories	32
Amount due from a shareholder	32,000
Trade and other receivables	318
Bank balances and cash	110
Amount due to a non-controlling shareholder	(9,630)
Trade and other payables	(406)
Deferred tax liabilities	(9,677)
	51,466

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB318,000 at the date of acquisition had gross contractual amounts of RMB318,000, being the best estimate of the contractual cash flows expected to be collected at acquisition date.

42. ACQUISITIONS OF SUBSIDIARIES - continued

(b) Acquisition of Carnation - continued

Non-controlling interests

The non-controlling interest (35.19%) in Carnation recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Carnation and amounted to approximately RMB18,108,000.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	70,000
Plus: non-controlling interests	18,108
Less: fair value of identifiable net assets acquired	(51,466)
Goodwill arising on acquisition	36,642

Goodwill arose in the acquisition of Carnation was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of focused ultrasound technology platform, research and development team, potential market development and future revenue growth of Carnation. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes

Net cash outflow arising on acquisition:

	RMB'000
Consideration paid in cash	38,000
Less: cash and cash equivalent balances acquired	(110)
	37,890

Impact of acquisition on the results of the Group:

Included in the profit for the year is loss of RMB3,339,000 attributable to the additional business generated by Carnation. Revenue for the year includes nil generated from Carnation.

Had the acquisition of Carnation been completed on 1 January 2021, revenue for the year of the Group would have been RMB8,337,221,000, and profit for the year would have been RMB3,024,724,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results.

42. ACQUISITIONS OF SUBSIDIARIES - continued

(b) Acquisition of Carnation - continued

Impact of acquisition on the results of the Group: - continued

In determining the 'pro-forma' revenue and profit of the Group had Carnation been acquired at the beginning of the current year, the directors of the Company calculated depreciation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31 December 2021 and 2020, the details of the Company's principal subsidiaries are set as follows:

Name of subsidiaries	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2021	31 December 2020	31 December 2021		31 December 2020		
				Directly	Indirectly	Directly	Indirectly	
CMS International	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
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
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	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	RMB32,500,000	RMB22,359,050	-	100%	-	100%	Production of medicines
Xili Pharmaceutical (sino-foreign equity joint venture)	PRC	RMB11,360,000	RMB11,360,000	-	52.01%	-	52.01%	Production of medicines

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2021	31 December 2020	31 December 2021		31 December 2020		
				Directly	Indirectly	Directly	Indirectly	
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$1,000,000,000	-	100%	-	100%	Investment holding
CMS Medical Venture Investment Limited	British Virgin Island	US$50,000	US$50,000	-	100%	-	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$113,340,100	MOP$113,340,100	-	100%	-	100%	Trading of drugs
CMS Pharma DMCC	Dubai	DH104,490,000	DH50,000	-	100%	-	100%	Trading of drugs
CMS Bridging DMCC	Dubai	DH261,220,000	DH50,000	-	100%	-	100%	Investment holding
CMS Aesthetics DMCC	Dubai	DH50,000	-	-	100%	-	-	Trading of drugs
Luqa Ventures Co., Limited	Hong Kong	HK$10,000	-	-	100%	-	-	Trading of drugs
Shanghai Carnation Medical Technology Co., Ltd	PRC	RMB2,842,105	-	-	64.81%	-	-	Trading of drugs
Shanghai Kangzhe Aesthetics Pharmaceutical Co., Ltd	PRC	RMB10,000,000	-	-	100%	-	-	Marketing and promotion
Hainan Kangzhe Aesthetics Technology Co., Ltd	PRC	RMB200,000,000	-	-	100%	-	-	Investment holding
Shenzhen Kangzhe Zhiyuan Enterprise Management Co., Ltd	PRC	RMB200,000,000	-	-	100%	-	-	Investment holding
Shenzhen Kangzhe Yingtai Technology Co.,Ltd	PRC	RMB100,000,000	-	-	100%	-	-	Investment holding
Hainan Kangzhe Venture Capital Co. Ltd	PRC	RMB100,000,000	-	-	100%	-	-	Investment holding

The above table lists the subsidiaries of the Company, in the opinion of the directors of the Company, which principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 RMB'000	2020 RMB'000
Non-current asset		
Interests in subsidiaries	4,604,171	4,324,239
Current assets		
Amount due from a subsidiary	1,000,000	500,000
Bank balances and cash	17,901	5,124
	1,017,901	505,124
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	2,234	3,220
Bank borrowings	1,103,760	-
	1,108,952	6,178
Net current (liabilities) assets	(91,051)	498,946
Total assets less current liabilities	4,513,120	4,823,185
Capital and reserves		
Share capital (note 33)	84,177	84,634
Reserves	4,428,943	4,738,551
Total equity	4,513,120	4,823,185

Movement in reserves

	Share premium	Capital reserve	Accumulated profits	Dividend reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020	2,391,513	6,960	2,477,402	315,260	5,191,135
Repurchase of ordinary shares	(86,634)	-	-	-	(86,634)
Profit and total comprehensive income for the year	-	-	468,179	-	468,179
Dividends paid	-	-	(520,095)	(314,034)	(834,129)
Dividends proposed	-	-	(501,080)	501,080	-
Balance at 31 December 2020	2,304,879	6,960	1,924,406	502,306	4,738,551
Repurchase of ordinary shares	(151,062)	-	-	-	(151,062)
Profit and total comprehensive income for the year	-	-	996,288	-	996,288
Dividends paid	-	-	(652,528)	(502,306)	(1,154,834)
Dividends proposed	-	-	(557,594)	557,594	-
Balance at 31 December 2021	2,153,817	6,960	1,710,572	557,594	4,428,943

45. EVENTS AFTER THE REPORTING PERIOD

Acquisition of a subsidiary

On 8 December 2021, a wholly-owned subsidiary of the Company entered into an equity transfer agreement with an independent third party to acquire 100% equity interest in Shanghai Xuli Medical Devices Company Limited (the "Target Company"), a medical aesthetic specialty company, from independent third parties (the "Acquisition") at a consideration of RMB45,000,000.

The Target Company focuses on the field of medical aesthetic products and is well established in the middle and upper stream of medical aesthetic industry, integrating R&D, production, sales and customized OEM (original equipment manufacturer), aiming to provide Chinese beauty-loving people with global high-quality medical aesthetic products, equipment and services.

As at 31 December 2021, deposit of RMB15,000,000 has been paid by the Group in relation to the Acquisition and recognised as deposit paid for acquisition of a subsidiary. The Acquisition has been subsequent completed on 21 January 2022 and accounted for under IFRS 3. Upon the completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company. However, the directors of the Company are still assessing the financial impact of the Acquisition to the Group at the date of the issuance of these consolidated financial statements.

Details are set out in the announcement made by the Company on 8 December 2021.