康哲®

CMS 康哲药业 CHINA MEDICAL SYSTEM

2023 ANNUAL REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE:867)

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong

Mr. CHEN Hongbing

Ms. CHEN Yanling

Independent Non-Executive Directors

Mr. LEUNG Chong Shun

Ms. LUO Laura Ying

Mr. FUNG Ching Simon

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan

Mr. LAM Kong

Audit Committee

Mr. FUNG Ching Simon (Chairman)

Mr. LEUNG Chong Shun

Ms. LUO Laura Ying

Remuneration Committee

Mr. LEUNG Chong Shun (Chairman)

Ms. LUO Laura Ying

Mr. FUNG Ching Simon

Nomination Committee

Ms. LUO Laura Ying (Chairman)

Mr. LAM Kong

Mr. LEUNG Chong Shun

Mr. FUNG Ching Simon

Environmental, Social and Governance Committee

Ms. CHEN Yanling (Chairman)

Mr. LEUNG Chong Shun

Mr. FUNG Ching Simon

Auditors

Deloitte Touche Tohmatsu

Registered Public Interest Entity Auditors

Principal Bankers

China Merchants Bank Co., Ltd.

Standard Chartered Bank (Hong Kong) Limited

DBS Bank (Hong Kong) 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

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510 King's Road

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Principal Contact Address in the PRC

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Shenzhen 518052

Guangdong Province

The PRC

Branch Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited

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183 Queen's Road East

Wan Chai

Hong Kong

Stock Code

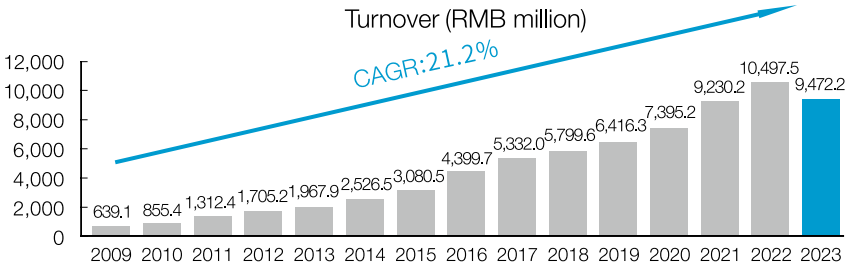
867

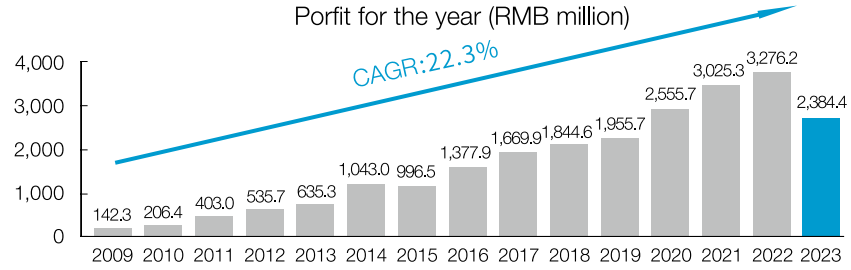
Company's Website

www.cms.net.cn

- Turnover down 12.4% to RMB8,013.3 million (2022: RMB9,150.3 million); in the case that all medicines were directly sold by the Group, turnover down 9.8% to RMB9,472.2 million (2022: RMB10,497.5 million)
- Gross profit down 13.2% to RMB6,109.2 million (2022: RMB7,035.8 million); in the case that all medicines were directly sold by the Group, gross profit down 12.4% to RMB6,053.7 million (2022: RMB6,910.5 million)
- Profit for the year down 27.2% to RMB2,384.4 million (2022: RMB3,276.2 million); normalized profit for the year* down 18.8% to RMB2,709.3 million (2022: RMB3,338.3 million)
- Basic earnings per share down 26.3% to RMB0.9792 (2022: RMB1.3281)
- As at 31 December 2023, the Group's bank balances and cash amounted to RMB4,311.1 million while readily realizable bank acceptance bills amounted to RMB181.0 million
- Proposed final dividend of RMB0.0783 per share, bringing the total dividend for the year ended 31 December 2023 to RMB0.3917 per share, representing a decrease of 26.7% over last year (2022: final dividend of RMB0.2414 and total dividend of RMB0.5344 per share)

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





*Normalized profit for the year represents profit for the year excluding provisions of impairment losses on related assets.

Summary of Consolidated Statement of Financial Position

	As at 31 December				
	2019	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	11,170,976	12,701,067	15,807,879	17,753,539	17,730,837
Total liabilities	1,654,844	1,598,352	2,960,892	3,016,462	2,174,430
Net assets	9,516,132	11,102,715	12,846,987	14,737,077	15,556,407

BUSINESS HIGHLIGHTS

During the Reporting Period, the chemical names of the Group's three products have been successively included in the National Volume Based Procurement (the "National VBP"), and with the implementation of the relevant National VBPs, bringing a negative impact on financial performance. However, the Group's exclusive products with differentiated advantages continued to maintain sustained growth. The Group's three innovative drugs have been successfully approved for marketing in China and all included in the National Reimbursement Drug List (NRDL), solidifying the foundation for rapid commercialization and adding growth momentum to the Group's development. In addition, the independent operational structures of its dermatology/medical aesthetics business, ophthalmology and international business have been progressively improved, further injecting impetus into the Group's long-term sustainable development, and ushering the Group into a "New CMS, New Rise".

Three Innovative Products Approved for Marketing in China and All Been Included in the NRDL

- Diazepam Nasal Spray (VALTOCO) - was approved by NMPA for marketing in China in June 2023, becoming the first drug approved for the treatment of seizure clusters. The product can be administered at anytime and anywhere, meeting clinical needs for accessible and convenient treatment option of epilepsy patients with seizure clusters.
- Tildrakizumab Injection (ILUMETRI) - a monoclonal antibody that specifically targets IL-23 (innovative biological agent), was approved by NMPA for marketing in China in May 2023. The product provides a new treatment option for psoriasis patients with lower dosing frequency.
- Methotrexate Injection for the treatment of psoriasis (METOJECT) – the first MTX pre-filled injection for subcutaneous administration in China, was approved for marketing by NMPA in March 2023.

Clinical Development of Four Innovative Drugs Progressed Steadily in China

- The NDA for an additional indication of Methotrexate Injection for the treatment of active rheumatoid arthritis (RA) in adults patients was accepted in China in December 2023.
- The NDA for Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted in China in February 2023. The product is an oral methylene blue sustained release formulation that enhances diagnosis sensitivity in detecting lesions during colonoscopy.
- Desidustat Tablets is a novel oral HIF-PHI. The phase III clinical trial for the product was progressing steadily, and completed the enrollment of all subjects in August 2023.
- Ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA and the European EMA for repigmentation in vitiligo, in December 2023, it received a drug clinical trial approval notice issued by China NMPA.

Innovation Pipeline Continued to Expand

- In August 2023, obtained the permanent exclusive promotion rights of Y-3 Injection, a Class 1 innovative drug for anti-ischemic stroke brain cytoprotectant in mainland China, Hong Kong and Macau. In January 2024, NeuroDawn Pharmaceutical announced the successful completion of Phase II clinical trial for Y-3 Injection, advancing towards Phase III clinical trial in China. The product is expected to become the first novel type of brain cytoprotectant that treats both stroke and post-stroke depression.

- In February 2024, obtained the exclusive license of the first-line phosphorus-lowering innovative drug sucroferric oxyhydroxide chewable tablets (VELPHORO) in mainland China, Hong Kong, Macau and Taiwan. The product has been approved for marketing in China in February 2023, and was newly included in the China's NRDL.

Dermatology and Medical Aesthetic Business "CMS Skinhealth"

Dermatology prescription products achieved breakthroughs:

- The innovative drug Tildrakizumab Injection has entered large-scale clinical application.
- The innovative drug ruxolitinib cream has been approved by Hainan Medical Products Administration for Urgent Clinical Import, and become available to applicable patients in the Boao Super Hospital in Hainan Lecheng for the topical treatment of non-segmental vitiligo in adolescents and adults aged 12 and above with facial involvement.

Light medical aesthetic products continued to expand:

- In May 2023, obtained the exclusive license for a regenerative medical aesthetic product, Poly-L-lactic Acid Microparticle Filler Injection, in Mainland China, Hong Kong, Macau and Taiwan.
- In January 2024, obtained the exclusive license for regenerative medical aesthetic products, Polycaprolactone Microsphere Gel for Injection and Calcium Hydroxylapatite Microsphere Gel for Injection in Mainland China, Hong Kong, Macau and Taiwan.

Ophthalmology Business "CMS Vision"

- Innovative medical device, EyeOP1 Glaucoma Treatment Device, has completed market access in many provinces and cities, and synergized with the exclusive marketed product Augentropfen Stulln Mono Eye Drops in marketing and promotion.
- VEGFA/ANG2 Tetravalent Bispecific Antibody, a class I innovative biological agent, has obtained drug clinical trials approval, and been in the Phase I clinical trial stage in China.

Southeast Asia Business

- Continue to enrich product portfolio: in March 2023, Rxilient Health entered into a collaboration agreement with Junshi Biosciences to promote the commercialization of toripalimab in Southeast Asia via a joint venture, providing quality China innovative drug for local cancer patients.
- In December 2023, CMS and Rxilient Health joined forces with Pharmaron and Legend Fund to jointly complete the acquisition of a manufacture plant in Singapore and accelerate the process of CDMO business in Southeast Asia, expected to improve the accessibility of quality drugs with unmet clinical needs in Southeast Asian markets. Besides, the acquisition of Singapore manufacture plant will optimize the Group's overseas supply chain and manufacturing capabilities, ensuring the safety of the international supply chain and enhancing supply stability.

CHAIRMAN'S STATEMENT

Looking back at the year 2023, the impact of geopolitical conflicts, energy crises, and the COVID-19 pandemic on the international industrial-chain was persisting. Concurrently, the global-wide inflation has triggered a continuous tightening of the international monetary and financial environment, causing greater instability in world economy development. In this macroeconomic environment, emerging markets and developing economies have demonstrated robust resilience and vitality, with new demands and challenges generating from prevalent aging population structure. This dynamic has propelled continuous refinement of the development environment in the pharmaceutical industry, releasing unprecedented opportunities for biotechnology innovation, internationalization, and industrial collaboration in the emerging markets and developing economies.

Over the past year, China Medical System Holdings Limited (the "Company") has remained rooted in its core business and continually reinforced competitive edge, while accelerated its development under the guidance of "transformation and openness", having firmly ushered in a new era of innovation and international development.

Hereby, on behalf of the Board of Directors of the Company (the "Board of Directors" or the "Board"), I extend my heartfelt gratitude to all employees, shareholders, and partners, and gladly present the Annual Report of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2023 (the "Reporting Period").

Forging Ahead with Innovation and Accumulating Strengths for the Future

The year 2023 meant a lot to CMS. We have started to face the challenges posed by the implementation of the National Volume Based Procurement. Over the past five years, by promoting innovation transformation and organizational reformation with concerted efforts, the Group has systematically reshaped its development resilience to be better prepared for the challenges. With the approval and commercialization of three innovative products, we successfully achieved the transition of business dynamics from old to new. Simultaneously, the organizational system with higher efficiency and more controllable costs that could support massive innovation has been built, to facilitate the yearly launches of innovative products starting from the year of 2023, injecting vitality into future development. Despite the turbulence of our operational performance during the Reporting Period, we have been well-prepared for a brighter future going forward.

Embracing "New Products, New CMS, and New Era"

In 2018, CMS initiated an innovation development strategy with "CMS characteristics". By iterative strategy refinement, we have articulated a strategic position as "a platform linking pharmaceutical innovation and commercialization".

CMS's robust commercialization gene provided ample nourishment for innovative development, endowing us with profound insight into the pharmaceutical market. Leveraging our strengths, we wholeheartedly advanced the deployment, development, and clinical application of innovative products. Following the "collaborative R&D and investment" innovation strategy and focusing on real clinical needs, we have established a close connection with extensive innovation forces and pipelines worldwide with promising scientific and commercial potentials, forming an influential innovation R&D ecosystem. Currently, CMS possesses about 30 innovative pipeline products with differentiated advantages, and efficiently advances the clinical development and commercialization processes of products, offering accessible and affordable global novel and quality drugs for patients.

In 2023, we delivered quality innovation outcomes with three innovative drugs approved in China, including Diazepam Nasal Spray (VALTOCO), Tildrakizumab Injection (ILUMETRI), and Methotrexate Injection (METOJECT), making a great success in innovation transformation from the scratch.

The marketing approvals were marked as the starting point of the commercialization of innovative products. In order to ensure the smooth and large-scale clinical application of innovative products, all relevant departments of the Group have collaborated closely to overcome challenges in manufacturing, supply chain, customs clearance, drug inspection and others. Preparatory work had been completed prior to the national reimbursement negotiations, and all three newly launched innovative products were successfully included in the National Reimbursement Drug List, significantly improving the accessibility and affordability of these innovative drugs.

Innovative achievements continue to emerge. At the beginning of 2024, we have obtained the exclusive license of a globally new generation iron-based, non-calcium phosphate binder, Sucroferric Oxyhydroxide Chewable Tablets (Velphoro). Velphoro has been newly included in the National Reimbursement Drug List, and marked the fourth commercialized innovative drug in our product portfolio. At this point of time, CMS has successfully embarked on the commercialization era of innovative products.

We believe to integrate innovation strategy and capability into the organizational structure will facilitate us to do better in our innovation development. In order to better align with the innovation-driven strategy, we have conducted a comprehensive organizational optimization, continually enhancing our management and execution capabilities across the entire lifecycle of innovative products, from target selection to product commercialization. We adhere to the allocation principles of "strivers and undertakers", optimizing employee compensation and incentive mechanism, and constructing a comprehensive and "no weak link" talent pool. Furthermore, we have established and interconnected various responsibility centers to coordinate supervision, early warning, review and approval, as well as support functions. This approach achieves collaborative working and decision-making, and promotes the institutionalization, digitization, and intellectualization development of the management system, creating a more agile modern organization.

Persistent innovation investment and transformation bring us the great confidence to embrace "New Future, New Rise" with "New CMS, New Product".

Striving to Root and Grow in Specialty Therapeutical Fields

Commercialization capability stands as the cornerstone of our competitive edge. We focus on advantageous specialty therapeutical fields, and adhere to evidence-based academic promotion guided by scientific research. Actively adapting to changes in product structure, we have refined organizational structure and upgraded supporting digital tools, while constantly improving our compliance control system covering every operational node. Leveraging on these enhancements, we have built several robust commercialization forces characterized by strong self-drive, high professionalism and ethical discipline. This evolving commercialization system escorted innovative products to rapidly achieve clinical and commercial values. Meanwhile, the system has facilitated the in-depth development and accelerated expansion of cardio-cerebrovascular/gastroenterology, dermatology/medical aesthetics, and ophthalmology business segments, solidifying the foundation for the continued healthy development of the Group.

Leveraging in-house development and external collaboration, our dermatology and medical aesthetics business "CMS Skinhealth" has continuously improved its skin-health management solution by forming a product structure centered on dermatology prescription products, and extended to dermatology-grade skincare products and light medical aesthetic products. Confronted with new business, new products and new demands, CMS Skinhealth has been striving to grow with brand influence building, execution efficiency improvement, and channel management optimization, firmly moving towards to its strategic goal of becoming "the largest and most professional skin-health management company in China".

The Group's ophthalmology business "CMS Vision" has undergone profound exploration and system optimization, resulting in more mature management structure, product strategies, and business models. Capitalizing on its comprehensive capabilities in the identification, incubation and commercialization of ophthalmic medicines and devices, CMS Vision has continued to drive the improvement and breakthroughs in urgently needed clinical practice in the ophthalmology field, aiming to develop into "a leading ophthalmology pharmaceutical and device company in China".

Accelerating International Business Development, Forging New Growth Engines

The strengths of the Group, including rich global investment and acquisition experiences, quality product resources, and mature commercialization capabilities, have paved the way for us to gain a competitive edge in exploring Southeast Asia and other emerging markets. Insightfully seizing the market opportunities presented by rapid economic growth, an aging population structure, and high dependence on imported drugs in emerging economies, the Group has continued to enhance its one-stop platform integrating R&D, manufacture, and commercialization in emerging markets including Southeast Asia.

The Group's Southeast Asia business "Rxilient Health" targets unmet medical needs in the local market. Leveraging the Group's advantageous resource, Rxilient Heath, operated by a local team with rich pharmaceutical industry expertise, has rapidly introduced a diverse product portfolio and established a business network covering various Southeast Asian countries/region. While anchoring in the Southeast Asian market, the Group has expanded its international business to more developing countries including the Middle East and North Africa, gradually establishing a commercialization network that penetrates into emerging markets.

Meanwhile, the Group has continued to reinforce its international supply chain and production capabilities to ensure supply chain security and stability. Through the acquisition of a manufacturing plant in Singapore, the Group has accelerated the development of formulation CDMO (Contract Development and Manufacturing Organization) business in Southeast Asia, laying a solid foundation for the large-scale clinical applications of existing and innovative products across countries and regions.

Through the international commercialization network and supply chain deployment in emerging markets, the Group will empower Chinese and global pharmaceutical companies to realize a global strategy in emerging markets, continuously building a collaborative, mutually beneficial pharmaceutical innovation ecosystem.

Shouldering Profound Social Responsibilities

We always remain true to our original aspiration and fulfill corporate mission with action, while actively shouldering the social and corporate responsibilities. Responding to the United Nations Sustainable Development Goals from a strategic perspective, we have been committed to safeguarding public health and supporting the sustainable development and prosperity of both the industry and society.

We have paid close attention to life-threatening/ chronic diseases and other clinical pain points affecting the health and well-being of the masses, efficiently developing quality, affordable pharmaceutical products with differentiated advantages. Furthermore, in order to improve the accessibility of advanced global biotechnologies for patients in China and other developing countries, we have actively promoted product inclusion in medical insurance coverage. Meanwhile, we have also been concerned about the needs of the public, actively engaging in charity programs such as disaster relief and poverty alleviation. Simultaneously, we have invested resources in building a corporate culture that is green, clean, friendly and inclusive, while collaborating with stakeholders to contribute to a better and healthier future for humanity.

Unveiled a New and Brighter Future

The journey of innovation and internationalization development is challenging, but also meaningful and fruitful, leading us to a new and brighter future. Here, I sincerely thank all CMS employees for their unwavering dedication and efforts over the past year. In the upcoming future, we will continue to step forward with perseverance and pragmatism, and seek for sustained robust development with untiring innovation and exploration.

Chairman
Lam Kong
Hong Kong, China
27 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Company Overview

CMS is a platform company linking pharmaceutical innovation and commercialization with strong product lifecycle management capability, dedicated to providing competitive products and services to meet unmet medical needs.

Leveraging core advantages, including proven clinical development and commercialization capabilities, clinical demand-oriented project management capabilities and substantial cash flow, the Group has formed an innovation strategy centered on "collaborative R&D and investment". The Group has collaborated extensively with global innovation forces through its innovation product incubation platform, to continuously deploy global first-in-class (FIC) and best-in-class (BIC) innovative products, and efficiently promote their clinical development and commercialization process, empowering the continuous transformation of scientific research outcomes into clinical practices. As of the end of the Reporting Period, the Group has deployed approximately 30 innovative products with differentiated competitive advantages, and at various developmental stages, among which three have been successfully approved for marketing in China in the first half of 2023, steadily entering the phase of scaled clinical application.

Deeply rooted in the China's pharmaceutical market for thirty-one years, the Group has gained leading academic and market positions for its major marketed products, leveraging on the extensive channel coverage and expert resources generated from its successful commercialization capabilities. Focused on the specialty areas while expanding its business boundaries, the Group continues to strengthen the competitiveness of its cardio-cerebrovascular/ gastroenterology business, and simultaneously promotes the steady development of its independently operated dermatology/medical aesthetics business and ophthalmology business, aiming to gain leading positions in specialty therapeutic markets. Meanwhile, the Group has expanded its business footprint to Southeast Asia, precisely empowering global quality pharmaceutical products to develop in Southeast Asian market.

Business Review

In 2023, the reform of the pharmaceutical industry continued to deepen, the growth rate of the pharmaceutical industry continued to adjust, and the restructuring of the industrial ecology also constantly evolved. However, the positive prospect of the pharmaceutical industry remains unchanged. Driven by increasing market demands, the pharmaceutical industry is poised for quality development through structural adjustment and efficiency improvement.

In 2023, Deanxit has been affected by implementation of the seventh batch of National Volume Based Procurement ("National VBP"), and Plendil and Ursofalk have been affected by implementation of the eighth batch of National VBP, which had a negative impact on the Group's sales performance. However, the Group's exclusive products with differentiated advantages continued to maintain sustained growth. The Group has entered the harvest cycle of innovation development, with three innovative drugs have been successfully approved for marketing and all included in China's National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2023 Version) ("NRDL"). All three drugs have begun to enter large-scale clinical applications, adding growth momentum for the business development and solidifying the most important foundation for the year of 2024.

During the Reporting Period, the Group recorded a turnover of RMB8,013.3 million (2022: RMB9,150.3 million), representing a year-on-year decrease of 12.4%; in the case that all medicines were directly sold by the Group, the turnover would be RMB9,472.2 million (2022: RMB10,497.5 million), a year-on-year decrease of 9.8%. Profit for the year was RMB2,384.4 million (2022: RMB3,276.2 million), representing a decrease of 27.2% year on year; normalized profit for the year* down 18.8% to RMB2,709.3 million (2022: RMB3,338.3 million).

* Normalized profit for the year represents profit for the year excluding provisions of impairment losses on related assets.

I. Innovative R&D

The Group relies on advantageous resources in specialty therapeutic fields to fully explore unmet clinical needs. Based on an innovative product incubation platform, it broadly links innovation sources with a global perspective, to proactively build an innovation pipeline with differentiated advantages, and efficiently promotes the entire process of innovative products from R&D to commercialization in an orderly manner, to produce innovative products with both societal value and clinical significance.

The Group continues to improve its R&D system covering the full lifecycle management of innovative products, and introduces external consultants to provide professional advice and improve management efficiency. Simultaneously, the Group focuses on building a more agile and modern organization, and promotes a comprehensive digital and institutional transformation of the product center, to improve execution capabilities in product assessment, medical development, clinical operations and registration management, and systematically incubates products that can meet the urgent needs of patients and with commercial potential, providing sustained growth momentum for the Group.

1. Efficient and quality R&D investment unleashing innovative value

After six years of innovative strategic transformation, the Group's innovative achievements have begun to materialize. During the Reporting Period, three innovative products with differentiated advantages have been approved for marketing in China, all of which were included in the National Reimbursement Drug List (NRDL) and have steadily entered the commercialization stage. These products, including Diazepam Nasal Spray (VALTOCO), Tildrakizumab Injection (ILUMETRI), and Methotrexate Injection for psoriasis indication (METOJECT), further enrich the existing commercialized product matrix in advantageous specialty areas, and develop synergistically with the existing marketed products, thereby accelerating the continuous transformation of old and new kinetic energy of its business.

The Group has also been steadily advancing the clinical development of innovative pipelines. During the Reporting Period, two products, Methylthioninium Chloride Enteric-coated Sustained-release Tablets and Methotrexate Injection - rheumatoid arthritis (METOJECT), have been under review for their New Drug Application (NDA) in China; In addition, a total of about ten projects have been prepared/launched for their clinical trials of registration, mainly randomized controlled trials (RCT), forming a good echelon effect.

1.1 Three Innovative Products Approved, and Included in the NRDL in China

- **In June 2023, the first Diazepam Nasal Spray (VALTOCO) was approved for marketing in China. The product can be administered at anytime and anywhere, and meets clinical needs for accessible and convenient treatment option for seizure clusters of patients with epilepsy. In December 2023, the product was newly included in the Category B of the NRDL, and the first prescription in China was issued.**

Diazepam Nasal Spray is the first drug approved by the China National Medical Products Administration (NMPA) for the treatment of cluster seizures. It is indicated for the acute treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e. seizure clusters, acute repetitive seizures) that are distinct from a patient's usual seizure pattern in patients with epilepsy of age 6 years and above. VALTOCO is a proprietary formulation of diazepam administered through the nasal mucosa, with high bioavailability, outstanding absorbability, tolerability and reliability. VALTOCO's product formulation incorporates a combination of Vitamin E-based solvents and Intravail® absorption enhancer. Intravail® transmucosal absorption enhancement technology enables the non-invasive delivery of a broad range of proteins, peptides and small-molecule drugs. Under the prescription and guidance of doctors and medical staffs, VALTOCO can be administered intranasally at any time and any place with rapid onset of action. It has the differentiated advantages in seizure rescue and convenient administration, meeting the current clinical needs of acute treatment of domestic epilepsy patients with cluster seizures in China.

During the Reporting Period, Diazepam Nasal Spray was included in the "2023 Chinese Expert Consensus on Diagnosis and Treatment of Dravet Syndrome" published in the "Journal of Epilepsy" and the "Clinical Diagnosis and Treatment Strategy of Dravet Syndrome" published in the "Chinese Journal of Pediatrics".

- **In May 2023, Tildrakizumab Injection (ILUMETRI), a monoclonal antibody that specifically targets IL-23, was approved for marketing in China. It can provide a new treatment option for psoriasis patients, with lower dosing frequency. In December 2023, the product was newly included in the Category B of the NRDL, and the first prescription in China was issued.**

ILUMETRI is a humanized IgG1/κ monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23 (IL-23) and inhibit its interaction with the IL-23 receptor, thereby suppressing the release of pro-inflammatory cytokines and chemokines. The product is approved by China NMPA for the treatment of adult patients with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy.

Results from a randomized, double-blind, placebo-controlled, multi-center Phase III clinical trial in China for the basic and extended study of Tildrakizumab Injection demonstrated that, the primary efficacy assessment indicator PASI 75 response rate continued to increase over treatment time. The PASI 75 response rate reached a high level after 28 weeks of treatment with ILUMETRI and maintained at 91.3% at week 52, and the product showed good long-term safety and tolerance. This study results were included in the academic journal "Chinese Medical Journal" in June 2023 and officially published in January 2024.

ILUMETRI requires only 4 administrations per year during its maintenance period, which may lead to higher patient compliance.

Tildrakizumab Injection has been unanimously recommended by authoritative psoriasis diagnosis and treatment guidelines in China, the United States, Europe, the United Kingdom, Germany and other countries and regions around the world, and was recommended by the "Chinese Psoriasis Diagnosis and Treatment Guidelines (2023 Edition)" issued by the Dermatology and Venereology Branch of the Chinese Medical Association during the Reporting Period.

- **In March 2023, Methotrexate Injection (METOJECT) was approved for marketing in China, becoming China's first pre-filled Methotrexate (MTX) Injection for subcutaneous administration for the treatment of psoriasis. During the Reporting Period, the product was directly included in Category A of the NRDL due to its generic name, and its first prescription in China was issued in October.**

Methotrexate Injection is China's first subcutaneously administered MTX pre-filled injection. It has been approved by China NMPA for the treatment of severe recalcitrant disabling psoriasis, which is not adequately responsive to other forms of therapy such as phototherapy, PUVA, and retinoids.

MTX has anti-inflammatory, anti-proliferative and immunomodulatory effects, and is currently one of the most effective traditional drugs for the treatment of psoriasis. However, oral MTX has poor patient compliance due to relatively large gastrointestinal side effects. The product is administered subcutaneously (this form of administration was recommended by domestic and foreign guidelines), which can increase bioavailability, and has lower side effects than oral MTX, in particular less adverse reactions in the gastrointestinal tract, and can improve patient treatment compliance and achieve a greater balance among efficacy, good safety tolerance and compliance. The product is available in a variety of small-capacity strengths, which are easy to use, allowing patients to self-administer medication at home under the judgment and guidance of a doctor to facilitate long-term disease management.

Methotrexate Injection has been unanimously recommended by many authoritative diagnosis and treatment guidelines for psoriasis indications, and was included in the "Chinese Psoriasis Diagnosis and Treatment Guidelines (2023 Edition)" published by the “Chinese Journal of Dermatology”, and "Expert Guidance on Subcutaneous Injection of Methotrexate for the Treatment of Psoriasis" published by the “Chinese Journal of Dermatology and Venereology” during the Reporting Period.

1.2 Clinical development in China advanced in an orderly manner

Methotrexate Injection - for the treatment of rheumatoid arthritis (RA) – It is expected to become the first pre-filled MTX injection to treat RA by subcutaneous administration in China (approved in Europe, Australia, Japan)

In December 2023, the NDA for an additional indication of Methotrexate Injection for the treatment of active RA in adults patients was accepted in China.

The bridge clinical trial of the product in China aims to compare the changes of DAS28-ESR score of patients with RA treated by methotrexate injection and methotrexate tablets compared with the baseline, and to judge whether the non-inferiority is established. The study reached the preset main endpoint, and the experimental group (given the product) was not inferior to the control group (given methotrexate tablets). In addition, the results of secondary efficacy indicators suggest that the efficacy of the product is significantly better than that of methotrexate tablets or there is a trend of better. The results also show that some of the curative effects that can be observed in the early stage of the product are more obvious than those of methotrexate tablets, suggesting that the curative effect of the product appears earlier. The product has some advantages over methotrexate tablets in gastrointestinal safety, and no new safety risks have been found in the study.

Methotrexate is recognized internationally as the first choice first-line and anchor drug for the treatment of RA.

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

In February 2023, the NDA for Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted in China.

The NDA is supported by a phase III clinical trial in China, which is a randomized, double-blind, placebo controlled, multi-centered bridging trial, involving 1,802 subjects enrolled in total (only 6 months was taken), aiming to evaluate the efficacy of the product in improving the detection rate of histologically confirmed non-polypoid colorectal lesions in subjects undergoing colonoscopic screening or colonoscopic monitoring, and the trial obtained positive results. The result of primary study endpoint of this clinical trial, the detection rate of nonpolypoid colorectal lesions (the proportion of subjects with at least one histologically confirmed non-polypoid colorectal lesion), showed it was 51% in the test group (the product was given) and 41.2% in the control group (placebo was given). The difference between the two groups was statistically significant ($P<0.0001$), indicated that the product could significantly increase the detection rate of non-polypoid colorectal lesions.

Methylthioninium Chloride Enteric-coated Sustained-release Tablets is a novel oral sustained-release formulation for diagnosis, which can help to improve the detection rate of colorectal lesions by enhancing visualization of the colorectal lesions in adult patients undergoing screening or surveillance colonoscopy.

Desidustat Tablets – a novel oral HIF-PHI (approved in India)

During the Reporting Period, the China Phase III bridging trial of Desidustat Tablets progressed steadily. In August, the trial completed the enrollment of all the 152 subjects. It is a randomized, double-blind, placebo controlled, and multi-centered bridging clinical trial, aiming to evaluate the efficacy of Desidustat Tablets in the treatment of anemia caused by non-dialysis chronic kidney disease (CKD) based on changes in hemoglobin (Hb) level from baseline. Led by Peking Union Medical College Hospital, Chinese Academy of Medical Sciences, the study had been conducted in 28 centers nationwide.

Desidustat Tablets is a novel oral Hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI) with good compliance and is expected to meet this unmet treatment needs in the field of CKD-caused anemia (including hemodialysis and non-dialysis patients).

Ruxolitinib cream – As of the end of the Reporting Period, the product is the first and only topical JAK inhibitor approved by the U.S. Food and Drug Administration (FDA) and the European Medicines Agency (EMA) for repigmentation in vitiligo

In December 2023, ruxolitinib cream received the drug clinical trial approval notice issued by China NMPA, agreeing to conduct a clinical trial evaluating the safety and efficacy of ruxolitinib cream for the treatment of non-segmental vitiligo.

Benefiting from the Early and Pilot Implementation Policy granted by the state to Hainan Boao Lecheng International Medical Tourism Pilot Zone in Hainan Free Trade Port (the "Pilot Zone"), in August 2023, the product has been approved by Hainan Medical Products Administration for Urgent Clinical Import, and officially became available to applicable patients in the Pilot Zone, for the topical treatment of non-segmental vitiligo in adolescents and adults aged 12 and above with facial involvement, although the product is not approved by the NMPA for any indication in China. Patients with vitiligo in China can apply for the product at Boao Super Hospital first and receive treatment from the expert team. As of the end of the Reporting Period, the product had been prescribed more than 2,000 times in Boao Super Hospital, benefiting more than 1,200 patients. The Group will also cooperate with Boao Super Hospital to conduct the Real World Study (RWS) for the product, which could support the product's registration and launching process in China.

Ruxolitinib cream, a novel cream formulation of Incyte's selective JAK1/JAK2 inhibitor ruxolitinib. As of the end of the Reporting Period, the product is the first and only topical JAK inhibitor approved for use in the United States, indicated for the topical treatment of nonsegmental vitiligo in adult and pediatric patients 12 years of age and older and for the topical short-term and non-continuous chronic treatment of mild to moderate atopic dermatitis (AD) in non-immunocompromised patients 12 years of age and older whose disease is not adequately controlled with topical prescription therapies, or when those therapies are not advisable.

The product is also approved in Europe for the treatment of adolescents and adults (age >12 years) with non-segmental vitiligo with facial involvement.

2. Scientific exploration and replenishment of quality pipeline creating high potentials

Y-3 Injection – expected to become the first novel brain cytoprotectant that treats both stroke and post-stroke depression

In August 2023, the Group entered into a Collaboration Agreement with Nanjing NeuroDawn Pharmaceutical Co. Ltd. ("NeuroDawn Pharmaceutical") for anti-ischemic stroke brain cytoprotectant, the class 1 innovative drug Y-3 Injection, and gained an exclusive promotion right of the product in Mainland China, Hong Kong Special Administrative Region ("Hong Kong") and Macao Special Administrative Region ("Macao"). The term of the Agreement is permanent.

Y-3 Injection is a Class 1 innovative drug - small molecule compound, which is used to alleviate neurological symptoms and dysfunction of daily activities caused by acute ischemic stroke. The mechanism of action of the product is to dissociate PSD-95 and nNOS coupling and activate α2-GABAA receptors. With dual-target intervention at the same time and its clear mechanism of action, the product is conducive to exerting brain cytoprotection effects. Meanwhile, the product has a rapid anti-depression and anti-anxiety function, and is expected to become the first novel brain cytoprotectant that treats both stroke and post-stroke depression. The product has compound and formulation patents in China. In January 2023, The Phase I clinical trial of the product in China has been completed and the results showed a good overall safety. During the Reporting Period, the product was in the Phase II clinical trial in China.

In January 2024, NeuroDawn Pharmaceutical announced the successful completion of Phase II clinical trial for Y-3 Injection, advancing towards Phase III clinical trial in China.

Sucroferric oxyhydroxide chewable tablets (VELPHORO) - the first iron-based, non-calcium phosphate binder (PB) approved in China, and filled the gap of phosphorus-lowering treatment for Chinese paediatric patients aged 12 to 18 years old with CKD stages 4-5 or CKD on dialysis.

In February, 2024, the Group entered into a Novation Agreement with Vifor Fresenius Medical Care Renal Pharma Ltd. and Winhealth Investment (HK) Limited and obtained an exclusive license of Sucroferric Oxyhydroxide Chewable Tablets (VELPHORO) to register, import, promote, distribute, use and sell the product in Mainland China, Hong Kong, Macao and Taiwan Region.

VELPHORO is a Class 5.1 imported innovative drug, which was approved through the priority review and approval procedure in China in February 2023 for the control of serum phosphorus (sP) levels in adults with chronic kidney disease (CKD) on hemodialysis (HD) or peritoneal dialysis (PD), and for the control of sP levels in paediatric patients 12 years of age and older with CKD stages 4-5 (defined as glomerular filtration rate <30mL/min/1.73 m^2) or CKD on dialysis. The product has been included in Category B of China's NRDL in December 2023.

VELPHORO is a new generation of iron-based, non-calcium PB, reducing sP levels of patients and increasing the sP compliance rate. It is demonstrated in multiple global clinical studies and real-world research data (as published in academic journals including International Urology and Nephrology, and Clinical Nephrology) and the Chinese instruction of the product that compared with other PBs, patients maintained on VELPHORO used about 50% fewer PB pills/day, and the proportion of patients achieving target sP increased by 95%. VELPHORO has characteristics of good safety and patient compliance without risk of calcium and heavy metal accumulation. In addition, the product holds the advantages of unaffected absorption of oral liposoluble vitamin D, maintaining stable iron parameters, improving the nutritional status in patients, reducing hospitalization rates, and alleviating patients' medical financial burdens. VELPHORO is expected to further improve the dialysis patients' quality of life and become a superior option of phosphorus-lowering treatment for CKD dialysis patients in China.

3. Innovative Pipeline

Launched in China/ 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		For the acute treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e. seizure clusters, acute repetitive seizures) that are distinct from a patient's usual seizure pattern in patients with epilepsy 6 years of age and older					2023.6.7	✓		
Tildrakizumab Injection (Biological Agent)		Treatment of adults with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy					2023.5.26	✓	✓	✓
Methotrexate Injection		Severe recalcitrant disabling psoriasis, which is not adequately responsive to other forms of therapy such as phototherapy, PUVA, and retinoids					2023.3.24		✓	
		Adult active rheumatoid arthritis							✓	✓
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								
Cyclosporine Eye Drops 0.09%		Increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)						✓		
PLENITY		An aid for weight management in adults with a BMI of 25-40 kg/m² when used in conjunction with diet and exercise						✓	✓	
Latanoprost Eye Drops		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						✓		
Ruxolitinib cream#		Topical treatment of nonsegmental vitiligo in adults and pediatric patients 12 years of age and older						✓	✓	
		Topical short-term and non-continuous chronic treatment of mild to moderate eczema (atopic dermatitis) in non-immunocompromised adult and pediatric patients 12 years of age and older whose disease is not adequately controlled with topical prescription therapies or when those therapies are not advisable						✓		
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								

Marketed in China Under R&D in 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

In March 2024, ruxolitinib cream was approved for clinical trial evaluating the safety and efficacy of the product for the treatment of mild to moderate atopic dermatitis by China NMPA.

** Major Marketed Regions indicate where products are approved. CMS's rights are stated by Rights Authorized Region, CMS has NO development, commercialization or other product rights in unauthorized regions.

Please refer to local prescribing information for more information, including full safety information, on CMS's marketed medicines, or on medicines marketed by CMS's collaboration partners.

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						
Y-3 Injection	*	Used to alleviate neurological symptoms and dysfunction of daily activities caused by acute ischemic stroke						
BB2603		Onychomycosis and tinea pedis						
VXM01 (Biological Agent)		Recurrent glioblastoma						
VEGFA/ANG2 Tetravalent Bispecific Antibody (Biological Agent)		Intended for ocular fundus neovascular diseases						
TYK2 Inhibitor# (CMS-D001)		Intended for psoriasis						
GnRH Receptor Antagonist## (CMS-D002)		Intended for moderate to severe pain associated with endometriosis						
~10 Self-developed Innovative Drugs		Including large molecules, small molecules and siRNA products, etc.						

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

* Taiwan is not included in the rights authorized region of Y-3 Injection.
# In January 2024, the Group's self-developed innovative drug, TYK2 inhibitor (CMS-D001), was approved for clinical trial by China NMPA.
In February 2024, the Group's self-developed innovative drug, GnRH receptor antagonist (CMS-D002), was approved for clinical trial by China NMPA.
** Major Marketed Regions indicate where products are approved. CMS's rights are stated by Rights Authorized Region, CMS has NO development, commercialization or other product rights in unauthorized regions.
Please refer to local prescribing information for more information, including full safety information, on CMS's marketed medicines, or on medicines marketed by CMS's collaboration partners.

II. Commercialization System

By continuously reinforcing and integrating the commercialization platform, the Group further consolidates its specialty therapeutic fields focused operation system with scale, compliance, branding and digitalization. During the Reporting Period, the Group's three independent specialty businesses segments: cardio-cerebrovascular/gastroenterology, dermatology/medical aesthetics, and ophthalmology, under the synergized advantageous resources from the Group, optimized brand promotion capabilities and digitalized operation capabilities based on academic evidence, striving to achieve scaled clinical application and academic brand building of innovative products, thereby providing patients, doctors and medical institutions with high-quality products, services and solutions.

As of the end of the Reporting Period, the Group's three innovative drugs had been approved for marketing, and in February 2024, the Group acquired the fourth marketed innovative drug sucroferric oxyhydroxide chewable tablets (VELPHORO). The four newly launched innovative products cover central nervous system, dermatology, cardio-cerebrovascular and other advantageous specially fields, and are expected to synergize with the Group's existing marketed products. All four innovative drugs have been newly included in the NRDL, further improving patients' accessibility and affordability. The Group's commercialization teams actively cooperated with the implementation and access of NRDL, and carried out relevant professional academic activities, thereby enabling innovative drugs to benefit relevant Chinese patients and their families on a broader scale and at an earlier stage.

For marketed exclusive or original products, the Group implemented a promotion approach driven by products' characteristics, and formulated customized market entry and promotion plans based on each product's development stage and competitive landscape, thus creating professional, differentiated, and quality brand images. Concurrently, it actively carried out post-marketing clinical trials to strengthen the evidence-based medical foundation for the product.

The Group actively carried out patient-oriented innovative promotion model, introducing a patient management and service platform, and with the aid of disease knowledge popularization and patient assistance programs, complemented by new media channel operations, enhancing patient recognition and product accessibility as well as improving disease awareness and consultation rate. In addition, the Group has actively expanded the coverage of retail market centered on pharmacies closed-to-hospitals and chain pharmacies to better undertake prescription traffic diversion. Meanwhile it also built a retail training system empowering chain pharmacies to boost terminal sales.

The Group continued to adhere to the operation principle of "compliance first", closely aligning with national and industrial compliance trends to continuously optimize its internal policies, and has formed a comprehensive compliance control and training system at the Group level, to solidify the foundation of its operations. Meanwhile, through routine employee behavior management, business execution tracking, evaluation and assessment, complemented by monitoring methods such as unannounced inspections, special inspections, the Group achieved real-time supervision, effective early warning and comprehensive control of business compliance risks.

As of the end of the Reporting Period, the Group had approximately 4,400 professional marketing and promotion related employees, with a promotion network covering over 50,000 hospitals and medical institutions, and approximately 250 thousand retail pharmacies in China.

1. Marketed Products

The Group's major marketed products have covered the cardio-cerebrovascular, gastroenterology, ophthalmology, dermatology and medical aesthetic fields. An information summary of major products as of the end of the Reporting Period is as follows:

Product line	Product	Indication/Function	Product Advantage
Cardio-cerebrovascular Line - Related	VALTOCO (Diazepam Nasal Spray) (innovative drug)	For the acute treatment of frequent seizure activity (i.e. seizure clusters, acute repetitive seizures) in patients with epilepsy 6 years of age and above	The first diazepam nasal spray approved by China NMPA, that can be administered at anytime and anywhere, meeting the clinical needs for accessible and convenient treatment option for epilepsy patients with seizures cluster.
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)	Acute decompensated heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) medicine approved by China NMPA
	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	The Calcium Channel Blocker (CCB) medicine suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Original reference preparation, the preferred medicine for mild to moderate anxiety and depression
Gastroenterology Line - Related	METOJECT (Methotrexate Injection) (innovative drug)	For the treatment of severe recalcitrant disabling psoriasis, which is not adequately responsive to other forms of therapy such as phototherapy, PUVA, and retinoids	The first MTX pre-filled injection for subcutaneous administration for the treatment of psoriasis has been approved by China NMPA
	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 2023 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
	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 2023 IQVIA data

Dermatology Line - Related	ILUMETRI (Tildrakizumab Injection) (innovative drug)	For the treatment of adult patients with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy	The monoclonal antibody that specifically targets to the p19 subunit of IL-23, and only requires 4 administrations per year during its maintenance period, which may lead to higher patient compliance
	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	A German original brand for the treatment of sclerotherapy of varicose veins with years of clinical application
Dermatology Grade Skincare Product	Heling Soothing Product Series (including 3 products)	Skin soothing with a combination of cleansing and moisturizing which is suitable for sensitive skin	Composed of four core ingredients that can moisturize and soothe the skin, helping to repair the skin barrier
Light 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 (medium and macro particle); Used for the deep dermal to subcutaneous implantation for the correction of moderate to severe nasolabial folds (small particle)	Painless, fashionable and accessible luxury HA filler with multiple particle sizes from South Korea, featured with safety and natural effect
	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
Ophthalmology Line - Related	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 safe and convenient treatment option of senile macular degeneration
	EyeOP1 Glaucoma Treatment Device	Glaucoma with intraocular pressure that cannot be controlled by drugs and surgery	Using high-focused ultrasound technology, which is a non-invasive procedure with precise targeting and convenient operations, providing a safe and effective innovative treatment for glaucoma

* Neauvia Hyaluronic Acid Series are sold in Hong Kong, China

During the Reporting Period, Deanxit has been affected by implementation of the seventh batch of National VBP, and Ursofalk and Plendil have been affected by implementation of the eighth batch of National VBP. Although Deanxit, Plendil and Ursofalk have not been selected in the National VBP, they are all original medicines with oral administration, and patients give a high recognition of their brands. Therefore, the overall negative impact could be expected. Revenues by product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB3,519.2 million, a decrease of 13.0% 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 decrease by 8.8% to RMB5,033.3 million compared with the same period last year, accounting for 53.1% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of products under gastroenterology line decreased by 15.4% to RMB3,057.0 million compared with the same period last year, accounting for 32.3% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the products under dermatology and medical aesthetic lines increased by 20.2% to RMB569.0 million, compared with the same period last year, accounting for 6.0% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the products under ophthalmology line increased by 14.7% to RMB504.7 million, compared with the same period last year, accounting for 5.3% of the Group's revenue in the case that all medicines were directly sold by the Group.
- Other products recorded revenue of RMB363.4 million, a decrease of 37.4% compared with the same period last year. In case that all medicines were directly sold by the Group, the revenue would decrease by 32.4% to RMB308.3 million compared with the same period last year, accounting for 3.3% of the Group's revenue in the case that all medicines were directly sold by the Group.

III. Dermatology and Medical Aesthetic Business

With the support of the Group-wide resources, the dermatology and medical aesthetic business "CMS Skinhealth" has formed a mature business system with rich business formats after three years' diligent exploration and continuous construction, and built a tripartite business structure consisting of dermatology prescription business unit, medical aesthetic products business unit, and new retail business unit. The gradual maturation of this system marks that CMS Skinhealth has completed the initial establishment of the skin health management ecosystem. Equipped with an organizational and talent structure that aligns with business development, CMS Skinhealth has effectively improved operational compliance and efficiency, gradually moving toward becoming "the largest and most professional skin-health management company in China".

In terms of product layout, CMS Skinhealth has followed the strategy of "one body" (dermatology prescription products) and "two wings" (dermatology-grade skincare products and light medical aesthetic products). Through both in-house development and external collaboration, CMS Skinhealth has launched differentiated products in an orderly manner, continually optimizing full lifecycle skin-health management solutions. Under continuous advancement of dermatological biotechnology along with the rapid changes in public aesthetic concepts, CMS Skinhealth continues to meet the diverse needs of various age groups and consumer segments for skin health and aesthetics.

With evidence-based medicine at its core, CMS Skinhealth has built a professional expert network platform for dermatology prescription products; it has explored a patient-oriented operating model to enhance patients' awareness of skin diseases and improve drug accessibility and information accessibility. For dermatology-grade skincare products with both medical and consumer attributes, CMS Skinhealth has actively constructed a scientific skin health concept that integrates treatment and care, conducted in-depth interpretation of product efficacy, and utilized the promotion matrix of new media platforms for direct consumer branding and reputation accumulation, to support continuous conversion of terminal sales. For injectable light medical aesthetic products, CMS Skinhealth has built a multi-dimensional promotion model involving academics, medical practices, operations, consulting and branding through item-driven strategies and institutional empowerment. During the Reporting Period, it achieved unified outputs and expanded brand influence.

As of the end of the Reporting Period, CMS Skinhealth had approximately 700 employees, covering nearly 10,000 hospitals and medical institutions in China.

1. The dermatology prescription portfolio was continued to expand, and the commercialization process of innovative drugs was fully advanced.

CMS Skinhealth has built a competitive products portfolio for dermatologic disease treatment, covering indications such as vitiligo, psoriasis, phlebitis, varicose veins and atopic dermatitis, etc.

During the Reporting Period, new breakthroughs has been made in the development and commercialization of innovative products. Tildrakizumab Injection (ILUMETRI), an innovative biological agent specifically targeting the p19 subunit of IL-23 for the treatment of moderate-to-severe plaque psoriasis, was successfully approved for marketing in China and included in the Category B of the NRDL. CMS Skinhealth has officially initiated the promotion of ILUMETRI, relying on the accumulated academic platform of existing marketed products including Hirudoid (the repair agent for skin barrier with multiple functions) and Aethoxysklerol (a German original brand for the treatment of sclerotherapy of varicose veins with years of clinical application), actively participated in industry seminars, and multi-dimensionally expanded the expert network to promote the academic concepts for long-term treatment of psoriasis patients.

Benefiting from the Early and Pilot Implementation Policy granted by the state to Hainan Free Trade Port and the Pilot Zone, in August 2023, the innovative product ruxolitinib cream was approved by Hainan Medical Products Administration for Urgent Clinical Import, and officially became available to applicable patients in the Hainan Boao Super Hospital, for the topical treatment of non-segmental vitiligo in adolescents and adults aged 12 and above with facial involvement. As of the end of the Reporting Period, more than a thousand patients have received treatment from the expert team.

2. Injectable light medical aesthetic products portfolio was continued to expand, building a comprehensive product matrix

CMS Skinhealth has advanced the deployment and development of light medical aesthetic products with a scientific mindset, and provided personalized solutions for various facial concerns among consumers.

During the Reporting Period, in addition to the existing marketed Korean hyaluronic acid (HA) product - Vmonalisa (the painless, fashionable and accessible luxury medium-to-macro-particle HA filler, featured with safety and natural effect), the small-particle HA product under the same brand has been approved for marketing in China. Besides, in May 2023 and January 2024, CMS Skinhealth entered into exclusive license agreements with Jiangsu Xihong Biopharma Co., Ltd., to commercialize Poly-L-lactic Acid Microparticle Filler Injection, Polycaprolactone Microsphere Gel for Injection and Calcium Hydroxylapatite Microsphere Gel for Injection in mainland China, Hong Kong, Macao and Taiwan. All three products, classified as Class III medical devices, are currently under clinical development stage in China, which are injectable implants developed for subcutaneous layer and deep dermis to correct moderate to severe nasolabial fold wrinkles. This product portfolio will be synergized with mainstream light medical aesthetic products such as Korean HA product - Vmonalisa sold by CMS Skinhealth, to provide a comprehensive light medical aesthetic solution for consumers.

Poly-L-lactic Acid Microparticle Filler Injection- a regenerative medical aesthetic product adopting patented microparticle preparation process to achieve plumping, firming, elasticity and natural skin rejuvenation

Poly-L-lactic Acid (PLLA), the main component of the product, is the high polymer material that is highly biocompatible and completely degradable with proven safety and efficacy. PLLA gradually degrades after injection, which can effectively stimulate human body's collagen regeneration to promote skin rejuvenation. In addition, the product adopts patented microparticle preparation process, which turns microparticles into regular shape and uniform size, and microparticles can be evenly distributed beneath the dermis, and the product could achieve relatively sound performance in the clinical application.

Polycaprolactone Microsphere Gel for Injection - an injectable anti-aging product with multi-effect of instant filling, contour shaping, and collagen regeneration through innovative gel

The product is mainly composed of polycaprolactone (PCL) microspheres and gel carrier. PCL is a completely degradable medical-grade material with wide clinical applications. Meanwhile, the less irritating gel carrier makes the product have good biocompatibility, which effectively reduces adverse reactions. Therefore, while achieving rapid filling and shaping, the product stimulates autologous collagen regeneration. In addition, this product contains lidocaine hydrochloride with local anesthetic effect, reducing injection pain and delivering patients a better user experience.

Calcium Hydroxylapatite Microsphere Gel for Injection - a regenerative medical aesthetic product adopting high-viscosity gel microsphere mixing technology to achieve facial filling and shaping, creating a three-dimensional facial appearance

The product is mainly made of calcium hydroxyphosphate (CaHA) microspheres and gel carrier. CaHA has mature clinical applications and its metabolites are calcium and phosphorus inorganic substances, similar to human bone components and can be completely absorbed by human body, ensuring the product's high biocompatibility and safety. The product uses an improved microsphere processing technique and a scientifically proportioned gel, making the microspheres distributed evenly within the skin tissue, minimizing filler displacement and gently stimulating human body's collagen regeneration, to achieve a long-lasting, natural-looking face slimming effect.

3. R&D of focused ultrasound medical aesthetic devices advanced in an orderly manner, solidifying the foundation of the R&D platform.

"Carnation", a focused ultrasound technology R&D platform of CMS Skinhealth, continuously promoted technological innovation and breakthrough in energy-based medical aesthetic devices based on the analysis of application scenarios and market demands.

FUBA 5200 Focused Ultrasound Body Contouring System, the major pipeline product in this R&D platform, is a non-invasive body shaping device with independent intellectual property right, and has been granted multiple utility model and appearance patents in China. During the Reporting Period, the China registrational clinical trial of FUBA 5200 Focused Ultrasound Body Contouring System was advancing in an orderly manner with all subjects completed and out, and the preparations for registration in China have been carried out in progress.

IV. Ophthalmology Business

The Group's ophthalmology business "CMS Vision" focuses on the identification, development and commercialization of urgently needed clinical solutions, and is committed to becoming a leading ophthalmology pharmaceutical and device company in China. CMS Vision's development is driven by both the R&D and strong commercialization capabilities of ophthalmic products. Through internal and external collaboration, it continues to enrich its product portfolio to enhance its overall layout of ophthalmic prescription drugs, devices and consumables. During the Reporting Period, the business structure was optimized, and efforts were made to improve management capabilities and professional competence, so as to build a highly professional ophthalmology team with profound understanding of products and the market.

1. Major Marketed Products

CMS Vision's major marketed products include the exclusive medicine Augentropfen Stulln Mono Eye Drops (the representative medicine for the treatment of asthenopia and the safe and convenient treatment option of senile macular degeneration) and the innovative medical device EyeOP1 Glaucoma Treatment Device (using high-focused ultrasound technology, which is a non-invasive procedure with precise targeting and convenient operations, providing a safe and effective innovative treatment for glaucoma). In order to better realize the commercial value transformation of the innovative medical device EyeOP1 Glaucoma Treatment Device, CMS Vision has emphasized on the product advantages of "non-invasive and safe intraocular pressure reduction" to enhance the recognition and popularity of this innovative surgical procedure (Ultrasound Cyclo Plasty), promoting innovation in clinical diagnosis and treatment concepts and accelerating product brand building.

As of the end of the Reporting Period, CMS Vision had more than 350 employees, covering approximately 10,000 hospitals and medical institutions in China.

2. Progress of Pipeline Product

VEGFA/ANG2 Tetravalent Bispecific Antibody - for the treatment of ocular fundus neovascular diseases, achieving stronger effectiveness and lower dosing frequency compared with existing anti-VEGF drugs

The tetravalent bispecific anti-VEGFA (vascular endothelial growth factor A) / ANG2 (angiopoietin 2) antibody for intravitreal injection (the "Tetravalent Bispecific Antibody Product") has been granted an approval for drug clinical trials issued in April 2023 by China NMPA and agreed to conduct the clinical trials in neovascular age-related macular degeneration (nAMD). During the Reporting Period, the Tetravalent Bispecific Antibody Product was in the Phase I clinical trial stage in China.

The Tetravalent Bispecific Antibody Product is a Class 1 Innovative Biological Product with a unique nano-antibody design bearing specific targeting VEGFA and ANG2, which can effectively inhibit abnormal neovascularization through two different pathways, for treatment of the ocular fundus neovascular diseases. The Tetravalent Bispecific Antibody Product enjoys the differentiation advantages of high affinity, strong inhibitory activity, high preparation concentration, good stability and a low dosing frequency, possessing important clinical implications.

V. Southeast Asia Business

As emerging markets with great potential along the line of the Belt and Road Initiative, the Southeast Asian market possesses favorable economic prospects and a sound business environment. In recent years, with an aging population and an increasing burden of non-infectious diseases, pharmaceutical consumption demands in Southeast Asian countries have continued to grow rapidly, resulting in a significant increase in local healthcare expenditures. With an insightful strategic vision, the Group has established a platform-based and systematic Southeast Asia business, "Rxilient Health", committed to building a "bridgehead" for global pharmaceutical companies to enter Southeast Asia and providing Southeast Asian patients with innovative drugs of both differentiated advantages and cost-effectiveness.

During the Reporting Period, independently operated by a local team that is well-versed in the local pharmaceutical ecosystem, Rxilient Health continuously improved its platform-based systematic operation structure, integrating product introduction, development, manufacture, formulation CDMO (contract development and manufacturing organization), marketing and promotion, and made substantial progress.

1. Continued to expand differentiated product pipeline based on the first-line clinical needs in the Southeast Asian market

Continuing to rely on the Group's product resources and focused on local clinical needs, Rxilient Health has built a portfolio of over ten products, covering various areas such as oncology, metabolism, dermatology, ophthalmology, and central nervous system. This includes the marketed innovative medical devices EyeOP1 Glaucoma Treatment Device, as well as a variety of pipelines, including ruxolitinib cream, Methylthioninium Chloride Enteric-coated Sustained-release Tablets, Diazepam Nasal Spray and other quality innovative products.

In March 2023, Rxilient Health entered into a collaboration agreement with Shanghai Junshi Biosciences Co., Ltd. ("Junshi Biosciences"). The two parties will collaborate to develop and commercialize intravenous toripalimab in nine Southeast Asia countries via a joint venture, Excellmab Pte. Ltd, providing quality China innovative drug for local cancer patients.

Toripalimab – As of the end of the Reporting Period, the first China-originated anti-PD-1 monoclonal antibody drug has been approved for marketing by China NMPA and the US FDA

Toripalimab has won the "Chinese Patent Gold Award (中國專利金獎)", the top award in China's patent field. The product's 7 indications have been approved in mainland China. The Biologics License Application (BLA) has been approved by the U.S. FDA for toripalimab, in combination with cisplatin and gemcitabine, indicated for the first-line treatment of adults with metastatic or recurrent locally-advanced nasopharyngeal carcinoma (NPC), and for toripalimab, as a single agent, is indicated for the treatment of adults with recurrent, unresectable, or metastatic NPC with disease progression on or after platinum-containing chemotherapy. As of the end of the Reporting Period, it has become the first and only drug approved for the treatment of NPC in the United States and also the first innovative biological drug independently developed and manufactured in China approved by the FDA. Besides, the European Medicines Agency (EMA), the British Medicines and Healthcare products Regulatory Agency (MHRA), the Australia Therapeutic Goods Administration (TGA) and the Singapore Health Sciences Authority (HSA) have respectively accepted the marketing authorization applications (MAA) for several toripalimab's indications.

2. Completed the acquisition of a manufacture plant in Singapore, accelerating the process of CDMO business in Southeast Asia

In December 2023, the joint venture, PharmaGend Global Medical Services Pte. Ltd. ("PharmaGend"), jointly invested by the Group, Rxilient Health, Pharmaron and Legend Fund, has entered into a lease agreement for the building and property located in Tuas, Singapore and completed the purchase of certain production machines and equipment from Strides Pharma Global Pte. Ltd. ("Singapore manufacturing plant").

The Singapore manufacturing plant has advanced manufacturing machines, equipment and first-class infrastructure. It had been approved by Health Sciences Authority of Singapore (HSA), the U.S. FDA and Therapeutic Goods Administration of Australia (TGA). It will serve as the plant and site for PharmaGend to carry out pharmaceutical formulation, finishing, and packaging business, accelerating the formulation CDMO business development in Singapore. The progress in series will promote the internationalization, quality, and sustainable healthy development of collaborative parties, and are expected to improve the accessibility of high-quality drugs with unmet clinical needs in emerging markets.

The acquisition of Singapore manufacturing plant will optimize the Group's overseas supply chain and manufacturing capabilities, and enhance the safety and stability of its international supply chain. In addition, it will help CMS to carry out product collaborations with its global partners in the future and promote more collaborations opportunities.

Subsequent Events

Gaining Exclusive License of an Innovative Product– First-line Phosphate-lowering Drug Velphoro

Following the Reporting Period, on 2 February 2024, the Group through a wholly-owned subsidiary of the Company entered into a Novation Agreement (the "Novation Agreement") with Vifor Fresenius Medical Care Renal Pharma Ltd. ("VFMCRP") and Winhealth Investment (HK) Limited ("Winhealth Investment") for sucroferric oxyhydroxide chewable tablets Velphoro ("Velphoro" or the "Product"). Winhealth Investment and VFMCRP entered into a License Agreement ("Velphoro License Agreement") for the Product on 28 June 2023. In accordance with Velphoro License Agreement, Winhealth Investment gained an exclusive license to register, import, promote, distribute, use and sell the Product in Mainland China, Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region (the "Territory"). Velphoro License Agreement commenced on its effective date and continues to be valid until the fifteenth anniversary of the date of the Product's first commercial sale in the Territory. Upon the expiration of the aforementioned term, Velphoro License Agreement may automatically be renewed for ten years as per certain conditions defined in Velphoro License Agreement. Thereafter, unless the parties reach a new agreement, Velphoro License Agreement will terminate upon expiration. In accordance with the Novation Agreement, Winhealth Investment novated its above-mentioned rights and obligations for the Product to a wholly-owned subsidiary of the Company.

Approvals of Drug Clinical Trials for Innovative Drugs Highly Selective TYK2 Inhibitor CMS-D001 and GnRH Receptor Antagonist CMS-D002

CMS-D001 tablets ("CMS-D001") and CMS-D002 capsules ("CMS-D002") self-developed by the Group have been granted approvals for drug clinical trials recently by National Medical Products Administration of the People's Republic of China ("NMPA"). NMPA agrees to conduct (i) a randomized, double-blind, placebo-controlled phase I clinical study of single or multiple dose escalation and food effects (open) to evaluate the safety, tolerability, pharmacokinetics and efficacy of CMS-D001 in healthy subjects and patients with plaque psoriasis; and (ii) a randomized, double-blind, placebo-controlled phase I clinical study of single or multiple dose escalation to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of CMS-D002 in healthy adult premenopausal female subjects.

Approval to Conduct a Phase 3 Clinical Trial Investigating Ruxolitinib Cream in Atopic Dermatitis in China

NMPA has approved the application to conduct a clinical trial evaluating the safety and efficacy of ruxolitinib cream for the treatment of mild to moderate atopic dermatitis (AD) on 18 March 2024.

Impacts of Significant Industrial Policies

In 2023, the adjustment of the NRDL and the National VBP has continued to be carried out on a normalized and standardized basis.

Regarding the adjustment of the NRDL, during the Reporting Period, the Group's four products approved for marketing in China were all included in the NRDL, among which the innovative drugs Diazepam Nasal Spray (VALTOCO) and Tildrakizumab Injection (ILUMETRI), and tetrabenazine tablets, a rare disease drug, have been newly included in Category B of China's "2023 NRDL"; the innovative drug Methotrexate Injection-Psoriasis (METOJECT) has been directly included in Category A of the NRDL due to its generic name. With the official implementation of the 2023 NRDL on January 1, 2024, it is expected to enhance patient accessibility and affordability to innovative drugs, so that innovative products can benefit more patients. At the same time, it helps to promote product market coverage and professional brand building, and accelerates the large-scale clinical application of innovative products, which will have a positive effect on the Group's development.

Regarding the National VBP, as of the end of the Reporting Period, the chemical names of the Group's three major marketed products were included in the National VBP, among which, Deanxit's chemical name Flupentixol and Melitracen Tablets Immediate-release Oral Dosage Forms was included in the seventh batch of National VBP catalog. While Plendil's chemical name Felodipine Sustained-release and Controlled-release Tablets Dosage Forms, and Ursofalk's chemical name Ursodeoxycholic Acid Immediate-release Oral Dosage Forms were included in the eighth batch of National VBP catalog. The seventh and eighth batches of National VBP were implemented successively in each province and city in November 2022 and July 2023 respectively, and Deanxit, Plendil and Ursofalk were not selected. However, all of the three drugs are original medicines with oral administration, with characteristics of well-recognized brand, so that the overall negative impact on sales could be expected.

During the Reporting Period, the Group continued to improve its sales strategies for national VBP products and strengthen its OTC markets deployment, so that to reduce the negative impact of national VBP on business performances. At the same time, the Group focused on brand building and market expansion of marketed innovative drugs, exclusive drugs, and products with both medical and consumer attributes. It also actively promoted the clinical development and registration of innovative products, accelerating the adjustment of product portfolio toward a more competitive, longer life-cycle and healthier structure.

Future Development

Looking ahead, the potential and vitality of China's pharmaceutical industry will continue to be unleashed, forming strong supports with various advantages, and the long-term optimistic trend of the industry will not be changed. Adapting to the everchanging environment, CMS adheres to doing the "difficult yet right" things, assuming a new mission in innovation and enhancing its development resilience. The Group strives to make breakthroughs in each business, and strengthens its advantages in the specialty therapeutic field.

In the future, the Group will continue to focus on differentiated innovation driven by clinical needs, actively explore opportunities for industrial collaboration, independent R&D and advantages integrations. While mutually benefiting from its global innovation partners, the Group will continually expand innovative portfolio that meets clinical needs and with academic value and strong commercial competitiveness. Through effective management of the entire lifecycle of innovative products, the Group will accelerate the clinical development and registration process, to facilitate the continue approvals and launches of innovative products.

The Group will actively explore innovative promotion models and improve professional competence of its employees, to vigorously promote the in-depth development of its three advantageous specialty business divisions: cardio-cerebrovascular/gastroenterology, dermatology/medical aesthetics, and ophthalmology. Meanwhile, the Group will continue to invest in digital and intelligent transformation, iteratively upgrade the refined operating systems with compliance, and build a more agile operating organization through streamlining and reshaping of business processes.

Simultaneously, CMS will continue to focus on its emerging markets international development strategy, starting with Southeast Asia. Focusing on the unmet clinical medication needs in Southeast Asia and other emerging markets, it will continue to explore and seize the industrial collaboration opportunities with a holistic perspective, constantly solidifying the one-stop platform integrating “R&D, Manufacturing and Marketing”. Meanwhile, the Group will continue to expand its international business to developing countries including the Middle East and North Africa, gradually establishing a commercialization network accessible to emerging markets worldwide, empowering Chinese and global pharmaceutical companies to realize their emerging markets focused globalization strategy and continuously building a collaborative, mutually beneficial pharmaceutical innovation ecosystem.

With thorough preparations, the Group will meet the higher requirements posed by the complex and ever-changing external environment for its business development. Looking ahead, the Group is ready to unleash its potential and will fully embrace a brighter future full of opportunities. By leveraging the in-depth development of differentiated innovative products, the specialty-focused and efficient commercialization platform, and the international business development in Southeast Asia and other emerging markets, the Group will maintain its high quality and sustained development. The Group will firmly seize the strategic policy opportunity brought by building the "Healthy China", closely follow the industry trends and move forward to enhance the quality of life through innovative biotechnology to further safeguard human health.

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

Turnover

Turnover decreased by 12.4% from RMB9,150.3 million for the year ended 31 December 2022 to RMB8,013.3 million for the year ended 31 December 2023. In the case that all medicines were directly sold by the Group, turnover decreased by 9.8% to RMB9,472.2 million for the year ended 31 December 2023 from RMB10,497.5 million for the year ended 31 December 2022, mainly due to a decrease of RMB1,708.7 million in sales of three pharmaceutical products resulted from the impact of implementation of the National Volume Based Procurement ("National VBP"), and the sales of these three pharmaceutical products for the second half of the year declined approximately 50% compared with the second half of last year.

Gross Profit and Gross Profit Margin

Gross profit decreased by 13.2% from RMB7,035.8 million for the year ended 31 December 2022 to RMB6,109.2 million for the year ended 31 December 2023; in the case that all medicines were directly sold by the Group, gross profit decreased by 12.4% to RMB6,053.7 million for the year ended 31 December 2023 from RMB6,910.5 million for the year ended 31 December 2022, primarily reflecting a decrease in turnover. Gross profit margin decreased by 0.7 percentage point to 76.2% for the year ended 31 December 2023 from 76.9% for the year ended 31 December 2022; in the case that all medicines were directly sold by the Group, gross profit margin decreased by 1.9 percentage points to 63.9% for the year ended 31 December 2023 from 65.8% for the year ended 31 December 2022, primarily reflecting a decrease in selling prices of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Selling Expenses

Selling expenses decreased by 7.7% from RMB2,721.3 million for the year ended 31 December 2022 to RMB2,511.3 million for the year ended 31 December 2023; selling expenses as a percentage of turnover increased by 1.6 percentage points to 31.3% for the year ended 31 December 2023 from 29.7% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, selling expenses as a percentage of turnover increased by 1.2 percentage points to 25.9% for the year ended 31 December 2023 from 24.7% for the year ended 31 December 2022, mainly due to an increase in resources injected to develop new businesses, and a decrease in sales of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Administrative Expenses

Administrative expenses increased by 3.1% from RMB636.6 million for the year ended 31 December 2022 to RMB656.6 million for the year ended 31 December 2023; administrative expenses as a percentage of turnover increased by 1.2 percentage points to 8.2% for the year ended 31 December 2023 from 7.0% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, administrative expenses as a percentage of turnover increased by 0.8 percentage point to 6.9% for the year ended 31 December 2023 from 6.1% for the year ended 31 December 2022, primarily reflecting an increase in administrative maintenance expenses required by the development of new businesses, and a decrease in sales of some pharmaceutical products resulted from the impact of implementation of the National VBP.

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 11.7% from RMB730.6 million for the year ended 31 December 2022 to RMB815.9 million for the year ended 31 December 2023. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2023 was 10.2%, representing an increase of 2.2 percentage points from 8.0% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, total research and development expenditures as a percentage of turnover increased by 1.6 percentage points to 8.6% for the year ended 31 December 2023 from 7.0% for the year ended 31 December 2022, primarily reflecting increases in research and development activities, and acquisition of equities in research and development companies.

Research and development expenses increased by 55.6% from RMB125.4 million for the year ended 31 December 2022 to RMB195.1 million for the year ended 31 December 2023. Research and development expenses as a percentage of turnover for the year ended 31 December 2023 was 2.4%, representing an increase of 1.0 percentage point from 1.4% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, research and development expenses as a percentage of turnover for the year ended 31 December 2023 was 2.1%, representing an increase of 0.9 percentage point from 1.2% for the year ended 31 December 2022.

Capital payments (set out in the table below) increased by 2.6% from RMB605.2 million for the year ended 31 December 2022 to RMB620.7 million for the year ended 31 December 2023. Such capital payments as a percentage of turnover for the year ended 31 December 2023 was 7.7%, representing an increase of 1.1 percentage points from 6.6% for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, such capital payments as a percentage of turnover increased by 0.8 percentage point to 6.6% for the year ended 31 December 2023 from 5.8% for the year ended 31 December 2022.

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Payment for acquisition of equity investments in research and development companies	344,975	98,577
Payment for acquisition and development of product rights	275,769	506,585
	620,744	605,162

Other Income

Other income increased by 16.9% from RMB198.6 million for the year ended 31 December 2022 to RMB232.1 million for the year ended 31 December 2023, mainly due to an increase in interest income.

Other Gains and Losses

Other gains and losses decreased by 7,909.5% from a loss of RMB4.2 million for the year ended 31 December 2022 to a loss of RMB336.0 million for the year ended 31 December 2023, mainly due to an increase in provisions of impairment losses on related assets.

Share of Result of Associates

Share of result of associates increased by 322.6% from RMB65.1 million for the year ended 31 December 2022 to RMB275.0 million for year ended 31 December 2023, mainly reflecting an increase in net profit of associates.

Finance Costs

Finance costs decreased by 5.8% from RMB49.1 million for the year ended 31 December 2022 to RMB46.3 million for the year ended 31 December 2023, mainly due to a decrease in bank borrowings used.

Income Tax Expense

Income tax expense increased by 0.6% from RMB486.7 million for the year ended 31 December 2022 to RMB489.3 million for the year ended 31 December 2023, mainly due to an increase in withholding tax arising on intercompany dividend distribution.

Profit for the Year

Profit for the year decreased by 27.2% from RMB3,276.2 million for the year ended 31 December 2022 to RMB2,384.4 million for the year ended 31 December 2023; normalized profit for the year decreased by 18.8% from RMB3,338.3 million for the year ended 31 December 2022 to RMB2,709.3 million for the year ended 31 December 2023, mainly due to a decrease in turnover and an increase in expenses.

Inventories

Inventories increased by 33.6% from RMB477.2 million as at 31 December 2022 to RMB637.6 million as at 31 December 2023. Average inventory turnover days increased from 82 days for the year ended 31 December 2022 to 107 days for the year ended 31 December 2023, mainly reflecting a higher stock level and a decrease in sales volume of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Trade Receivables

Trade receivables decreased by 20.5% from RMB1,442.0 million as at 31 December 2022 to RMB1,146.7 million as at 31 December 2023. Average trade receivables turnover days increased to 76 days for the year ended 31 December 2023 from 70 days for the year ended 31 December 2022, mainly due to a decrease in sales of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Trade Payables

Trade payables decreased by 20.4% from RMB178.0 million as at 31 December 2022 to RMB141.7 million as at 31 December 2023. Average trade payables turnover days increased to 31 days for the year ended 31 December 2023 from 28 days for the year ended 31 December 2022, mainly reflecting a decrease in sales volume of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Liquidity and Financial Resources

As at 31 December 2023, the Group's bank balances and cash amounted to RMB4,311.1 million while readily realizable bank acceptance bills amounted to RMB181.0 million. As at 31 December 2022, the bank balances and cash amounted to RMB4,376.4 million while readily realizable bank acceptance bills amounted to RMB269.6 million.

As at 31 December 2023, the cash and cash equivalents of the Group were mainly denominated in RMB, United States Dollar ("US$"), Euro ("EUR") and Hong Kong Dollars ("HK$").

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

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net cash from operating activities	2,502,853	3,553,243
Net cash used in investing activities	(442,276)	(1,178,202)
Net cash used in financing activities	(2,125,024)	(1,399,914)
Net (decrease) increase in cash and cash equivalent	(64,447)	975,127
Cash and cash equivalent at beginning of the year	4,376,376	3,385,739
Effect of foreign exchange rate changes	(871)	15,510
Cash and cash equivalent at end of the year	4,311,058	4,376,376

Net cash from operating activities

For the year ended 31 December 2023, the Group's net cash generated from operating activities was RMB2,502.9 million compared with RMB3,553.2 million for the year ended 31 December 2022, a decrease of 29.6% mainly due to a decrease in operating profit of some pharmaceutical products resulted from the impact of implementation of the National VBP.

Net cash used in investing activities

For the year ended 31 December 2023, the Group's net cash used in investing activities was RMB442.3 million compared with RMB1,178.2 million for the year ended 31 December 2022, a decrease of 62.5% mainly due to a decrease in purchase of product rights, and an increase in dividend received from associates.

Net cash used in financing activities

For the year ended 31 December 2023, the Group's net cash used in financing activities was RMB2,125.0 million compared with RMB1,399.9 million for the year ended 31 December 2022, an increase of 51.8% mainly due to an increase in repayment of bank borrowings.

Net Current Assets

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current Assets		
Inventories	637,636	477,206
Financial assets at fair value through profit or loss	1,832,258	1,491,336
Trade receivables	1,146,738	1,442,035
Other receivables and prepayments	421,849	601,909
Loan receivable	35,945	70,168
Tax recoverable	784	253
Derivative financial instruments	-	42,021
Amount due from associates	408,167	328,072
Bank balances and cash	4,311,058	4,376,376
	8,794,435	8,829,376
Current Liabilities		
Trade payables	141,664	178,009
Other payables	295,312	385,185
Lease liabilities	15,416	15,804
Contract liabilities	12,733	21,614
Bank borrowings	1,269,650	1,783,337
Derivative financial instruments	17,227	562
Deferred consideration payables	1,000	1,000
Obligation arising from put options	-	163,773
Tax liabilities	295,784	327,819
	2,048,786	2,877,103
Net current assets	6,745,649	5,952,273

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	
	2023	2022
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	275,769	506,585
Purchase of land use right	14,701	-
Purchase of property, plant and equipment	27,490	18,336
	317,960	524,921

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	
	2023	2022
	RMB'000	RMB'000
Interest bearing bank borrowings	1,269,650	1,783,337

The Group had bank borrowings of RMB1,269.7 million as at 31 December 2023 (31 December 2022: RMB1,783.3 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, decreased by 2.8 percentage points to 7.2% as at 31 December 2023 from 10.0% as at 31 December 2022.

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$, EUR and HK$. 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 2023, 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 2023, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2023, the Group had no material contingent liabilities.

Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In February 2023, in order to focus more on its core business, the Group was deemed to dispose of its subsidiary Hebei Xinglong Xili Pharmaceutical Co., Ltd., which was transferred to a joint venture of the Group at the same date, details are disclosed in note 43 to the consolidated financial statements.

Save as disclosed above, there has been no acquisition or disposal of subsidiaries, associates or joint ventures by the Group during the year ended 31 December 2023.

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

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 "SC Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as lender) in respect of a US$40,000,000 term loan facility (the "SC Facility") made available to the Borrower for a term of 36 months from the first utilization date under the SC 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 "DBS Facility Agreement") with DBS Bank (Hong Kong) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "DBS Facility") made available to the Borrower for a term of 22 months from the first utilization date under the DBS Facility Agreement.

Pursuant to the SC Facility Agreement and DBS Facility Agreement, if, among other things, Mr. Lam Kong, the chairman ("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 SC Facility and DBS Facility, respectively, and declare that all outstanding loans together with accrued interest and all other amounts accrued under the SC Facility and DBS Facility, respectively, will become immediately due and payable. As at 31 December 2023, Mr. Lam Kong (directly and indirectly) held approximately 46.39% of the total issued ordinary share capital of the Company.

The SC Facility and the DBS Facility were paid off during the year ended 31 December 2023.

Dividend

During the year ended 31 December 2023, the Group paid an interim dividend for 2023 and a final dividend for 2022 of RMB768.5 million and RMB591.9 million, respectively. For the year ended 31 December 2022, the Group paid an interim dividend for 2022 and a final dividend for 2021 of RMB718.6 million and RMB557.6 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lam Kong, aged 59, 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 47 of this Annual Report.

Mr. Chen Hongbing, aged 57, 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 47 of this Annual Report.

Ms. Chen Yanling (former Chinese name as 陳艷玲), aged 53, 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 2023, Ms. Chen was awarded eight times the "Best CFO" in Healthcare and Pharmaceuticals by the Institutional Investor Magazine. 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 47 of this Annual Report.

Independent Non-Executive Directors

Mr. Leung Chong Shun, aged 58, 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 Coal Energy Company Limited (a company listed on the Stock Exchange with stock code: 01898) from June 2017 to March 2023, China Communications Construction Company Limited (a company listed on the Stock Exchange with stock code: 01800) from January 2011 to November 2017, China National Materials Company Limited (the listing with stock code: 01893 was withdrawn on the Stock Exchange) from July 2007 to April 2018 and SSY Group Limited (a company listed on the Stock Exchange with stock code: 02005) from October 2005 to May 2023. He is currently an independent non-executive director of 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 59, was appointed as an independent non-executive Director on 31 March 2020. Ms. Luo has 29 years of investment experience. She currently works as an investment director of GL China Equity HK Management Limited and director of Pawo Foundation Limited, and previously has worked as a consultant of GL China Equity HK Management Limited and a consultant of 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: 09983) and Tianjin Port Development Holdings Limited (a company listed on the Stock Exchange with stock code: 03382). 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 55, 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 19 years of experience in managing finance and accounting functions, mergers and acquisitions, fund raising and investor relations for 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 (the listing with stock code: 01589 was withdrawn on the Stock Exchange) 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 an independent 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 Environmental, Social and Governance Committee of the Company.

SENIOR MANAGEMENT

Dr. Peng Huaizheng, aged 62, 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 18 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. James Stearns, aged 44, 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 an England investment bank and the investment director of an independent private equity firm, possessing over 20 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 Fei, aged 47, 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 6 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. Jiang Qingfu, aged 48, is the General Manager of Cardio-cerebrovascular/Digestion Business (Shenzhen Kangzhe) 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. He was promoted to managerial positions rapidly after training at junior positions, having made outstanding sales contribution during the period. Mr. Jiang is currently responsible for the overall operations and management of Shenzhen Kangzhe, possessing over 20 years of sales and marketing experience and rich experience in operations and management. Mr. Jiang obtained a bachelor's degree in clinical medicine from Anhui Medical University in 1999.

Mr. Huang Anjun, aged 47, is the General Manager of Dermatology and Medical Aesthetic Business (CMS Aesthetics) 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 is currently responsible for the overall operations and management of CMS Aesthetics, possessing over 10 years of sales and marketing experience and rich experience in operations and management. 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 46, is the General Manager of Ophthalmology Business (CMS Vision) 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 is currently responsible for the overall operations and management of CMS Vision, possessing over 10 years of sales and marketing experience and rich experience in operations and management. 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 54, is the General Manager of the Business Operations Center 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 20 years of sales and marketing management experience. Mr. Ma graduated from Shenzhen University in 1990, majoring in business administration. He obtained the degree of Executive Master of Business Administration (EMBA) from University of Macau in 2022.

Ms. Li Yufang, aged 45, is the General Manager of the Finance Center 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.

Company Secretary

Ms. Wu Sanyan, aged 42, 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 2023.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 44 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on page 77.

Business Review

Business review of the Group for the year ended 31 December 2023 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 2023 are set out in the consolidated statement of changes in equity on page 80 and note 34 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2023, the Company had distributable reserves of RMB3,569.2 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 RMB0.0783 (equivalent to HK$0.086) per Share for the year ended 31 December 2023 to shareholders whose names appear on the register of members of the Company after market closes on Tuesday, 14 May 2024. The register of members of the Company will be closed on Thursday, 16 May 2024. The final dividend will be paid to shareholders on about Thursday, 23 May 2024 after the shareholders' approval at the annual general meeting of the Company scheduled on Thursday, 9 May 2024 (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 third amended and restated Memorandum and Articles of Association (the "Articles of Association"). The Company endeavors to strike a balance between the shareholders' interest and prudent capital management with a sustainable dividend policy. The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary. There is no assurance that the Company will pay dividends in any particular amount for any given period.

Pre-emptive Rights

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

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

None of the Company or 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. LEUNG Chong Shun

Ms. LUO Laura Ying

Mr. FUNG Ching Simon

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 required to stand for re-election pursuant to Article 16.2 shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Accordingly, Mr. LAM Kong, Mr. CHEN Hongbing and Mr. FUNG Ching Simon 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 17 April 2024.

Annual Confirmation of Independence

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

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 37 to 41 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 three-year terms and one-year terms, 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 5 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.

Share Award Scheme

The Company adopted the CMS share award scheme ("Share Award Scheme") on 17 January 2024.

Objective of the Share Award Scheme

The Company implemented the Share Award Scheme to encourage the Group's core management team and key personnel to continue to make outstanding contributions to the marketing and sales of new products, through an award ("Award") of shares of the Company ("Shares").

The Share Award Scheme is a strategic measure to facilitate the steady rollout of innovative products in a sustainable and financially responsible manner. The Share Award Scheme is designed to expedite the launch of new products, thereby enabling a swifter realization of their clinical and commercial potential. It is crafted to establish a positive incentive framework that encourages continual innovation and operational excellence.

Participants of the Share Award Scheme

Eligible participants ("Eligible Participants") comprise the Group's core management, key employees in the product team (including employees responsible for product launch, research and development, and registration), key employees in the sales team (including employees responsible for marketing and promotion), and key employees in the operations team.

Administration

The Company has engaged a trustee (the "Trustee") to administer the Share Award Scheme, and the Trustee will use the Company's own funds to purchase Shares from the secondary market. The Share Award Scheme shall be subject to the administration of the Board whose decisions on all matters arising in relation to the Scheme shall be final and conclusive.

Maximum number of Share Award Scheme Shares

Pursuant to the rules of the Share Award Scheme, the aggregate maximum number of Shares to be purchased by the Trustee shall not exceed 100,000,000 Shares, representing approximately 4% of the issued share capital of the Company as at the date of this report.

The maximum number of awarded Shares that may be granted to any one Eligible Participant on a cumulative basis in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time.

Vesting conditions

The Board or a management committee will set performance targets reflecting various factors including the overall financial performance of the Group, the cumulative sales revenue of particular products, the launch count of new products within a given timeframe, and/or achievement of additional specified metrics. The allocation of share awards will be subject to evaluation of each individual's contributions to meeting those targets. This aims to motivate employees, reinforce their dedication to the Group's success, and encourage continuous engagement. The goal is to support the Group's long-term growth and prosperity.

The Board currently intends to set performance targets based on the number of new products launched by the Group, as well as the sales of new products.

If the relevant performance targets are met or exceeded before the vesting date in respect of an Award, the Trustee shall transfer to and vest in any Eligible Participant, for nil consideration, such number of Shares to which such Eligible Participant is entitled.

Remaining life of the Share Award Scheme

The Share Award Scheme shall be valid and effective for a term of 10 years commencing 17 January 2024. As at the date of this report, the remaining life of the Share Award Scheme is 9 years and 9 months.

As at the date of this report, the number of Awards that may be granted under the Share Award Scheme was 100,000,000, representing approximately 4% of the total number of issued shares of the Company As at the date of this report. Since the adoption of the Share Award Scheme and up to the date of this Annual Report, no Awards have been granted, vested, cancelled, or lapsed, and there are no unvested Awards outstanding under the Share Award Scheme.

Directors' interests in Transactions, Arrangements or Contracts of Significance

Except as disclosed in this report, there was no transaction, arrangement or contract of significance subsisting during or at the end of the financial year ended 31 December 2023 in which a director or an entity connected with a director is or was materially interested.

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 2023, 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 C3 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)	46.39%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.82%
		Interest in controlled corporation	50,225,000 (L) (Note 3)	2.05%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.30%

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 2023, 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 year ended 31 December 2023, details of the Group's continuing connected transaction subject to the reporting, annual review, announcement requirements are set out as follows:

Continuing connected transaction	Date	Connected person	Description and purpose of the transaction	Annual cap for the year ended 31 December 2023	Actual transaction amount (royalty fee) for the year ended 31 December 2023
Asset Assignment Agreements related to Diazepam Nasal Spray (VALTOCO) ("Diazepam Asset Assignment Agreements") and Amendment Agreements for Diazepam Asset Assignment Agreements ("Diazepam Asset Assignment Amendment Agreements")	Diazepam Asset Assignment Agreements:28 August 2023; Diazepam Asset Assignment Amendment Agreements:12 September 2023	A&B (HK) Company Limited ("A&B"), a company wholly-owned by Mr. Lam Kong, an executive Director and the chairman of the Board, and a controlling shareholder of the Company	the CMS Parties, each a subsidiary of the Company, and A&B entered into the Diazepam Asset Assignment Agreements on 28 August 2023 and the Diazepam Asset Assignment Amendment Agreements on 12 September 2023 to specify detailed terms of the transfer and the assignment of all the assets related to any pharmaceutical preparation, formulation, dosage form, or delivery vehicle relating to the Diazepam Nasal Spray (VALTOCO) and/or its line extensions in the territories (being mainland China, Hong Kong, Macau, Taiwan and Singapore) to the Group	RMB66.65 million	RMB0.35 million

The detailed terms of the non-exempt continuing connected transaction mentioned above are as follows:

Diazepam Asset Assignment Agreements and Diazepam Asset Assignment Amendment Agreements

On 28 August 2023, CMS Bridging Limited, CMS International Development and Management Limited, PharmaGend (formerly known as Rxilient Biotech Pte. Ltd.) and Rxilient Medical Pte. Ltd. (collectively, the "**CMS Parties**"), each a subsidiary of the Company, and A&B entered into the Diazepam Asset Assignment Agreements (for details, please refer to the announcement published by the Company on the websites of the SEHK and the Company on 28 August 2023); on 12 September 2023, the CMS Parties, and A&B entered into the Diazepam Asset Assignment Amendment Agreements to amend certain terms of the Diazepam Asset Assignment Agreements (for details, please refer to the announcement published by the Company on the websites of the SEHK and the Company on 12 September 2023). Pursuant to the Diazepam Asset Assignment Agreements and the Diazepam Asset Assignment Amendment Agreements, A&B transferred and assigned all the assets related to any pharmaceutical preparation, formulation, dosage form, or delivery vehicle relating to the Diazepam Nasal Spray (VALTOCO) and/or its line extensions in the territories (being mainland China, Hong Kong, Macau, Taiwan and Singapore) to the Group.

Assets acquired

The CMS Parties have agreed to acquire from A&B, and A&B has agreed to transfer and assign to the relevant CMS Parties all the assets related to the product in the territories, being mainland China, Hong Kong, Macau, Taiwan and Singapore (the "Territories"). The product refers to any pharmaceutical preparation, formulation, dosage form, or delivery vehicle, relating to the Diazepam Nasal Spray (VALTOCO) and/or its line extensions (the "Product"). The assets include the marketing authorization, manufacture rights, intellectual property and all commercial information, medical information, know-how and records related to the product in and for the territories. Accordingly, following the acquisition the Group owns the exclusive right to promote, distribute, market and sell the product in the territories.

Consideration

The Assets were originally acquired by Prime West Global Limited ("PWG") from Neurelis pursuant to an asset assignment and exclusive licence agreement (the "Upstream Agreement"). In February 2016, A&B entered into an assignment agreement with PWG whereby A&B acquired the Assets for US$5.0 million. In addition, A&B has agreed to assume the liabilities of PWG under the Upstream Agreement, which include the agreement to pay to Neurelis royalty payments of up to US$0.6 per Unit of Diazepam Nasal Spray (VALTOCO) imported into or sold in the Territories ("Royalty I"), subject to such adjustments to reflect the final pricing scheme adopted in the relevant jurisdiction of the Territories.

Pursuant to the Diazepam Asset Assignment Agreements, the CMS Parties have agreed to pay A&B a royalty payment of 9.0% on the net sales of Diazepam Nasal Spray (VALTOCO) sold by the Group in the Territories ("Royalty II"). Further, the CMS Parties have agreed to assume the liabilities of A&B under the Upstream Agreement. Accordingly, the CMS Parties will be responsible for the payment of any Royalty I due to Neurelis under the Upstream Agreement in relation to the Diazepam Nasal Spray (VALTOCO) imported into or sold in the Territories. Pursuant to the Asset Assignment Amendment Agreements, the CMS Parties and A&B agreed that the CMS Parties will pay the Royalty I to A&B instead of paying the Royalty I directly to Neurelis. The amount of the Royalty I payable to A&B by the CMS Parties will be equal to the royalty that A&B is required to pay Neurelis under the Upstream Agreement, as determined by the formula in the Upstream Agreement.

The above consideration is determined by the Group and A&B after arm's length negotiations taking into account factors including the original acquisition cost of the product by A&B, the competitiveness of the Product in the Territories, the Group's business plans, and the results of clinical trials and status of new drug application of the product in different jurisdictions within the territories.

Term

The initial payment term of the Royalty II payments is fixed for a period ending 31 December 2047 (the "Royalty Term"), and the term may be extended for further periods subject to the parties' agreement and compliance with any requirements under the Listing Rules; the CMS Parties currently expect that the Royalty I will be payable until the end of 2032.

Rule 14A.52 of the Listing Rules stipulates that the period for an agreement for continuing connected transactions must have a fixed period of no more than three years, unless special circumstances justify a longer period based on the nature of the transaction. The Company considers that a long term or indefinite period is customary in the pharmaceutical industry for asset assignment agreements or in-license agreements similar to the Asset Assignment Agreements, because the parties invest significant time and capital in marketing and promoting the drugs. Accordingly, the Royalty Term of up to 25 years reflects the market practice. In this regard, the Company has appointed Anglo Chinese Corporate Finance, Limited ("Anglo Chinese") as the independent financial adviser as required by Rule 14A.52 of the Listing Rules to explain why the Asset Assignment Agreements require a period longer than three years and to confirm that it is normal business practice for agreements of this type to be of such duration. Anglo Chinese is of the opinion that (i) a term of longer than three years is required for the Asset Assignment Agreements; and (ii) it is normal business practice for agreements of this type to be of such duration.

Annual Caps

	RMB '000
For each year during the five-year period ending 31 December 2027	66,650
For each year during the five-year period ending 31 December 2032	111,080
For each year during the remaining period of the Royalty Term	150,000

The Annual Caps are the sum of Royalty I and Royalty II payments. The Annual Caps have been determined based on, among other things, the following considerations: (a) the market size and growth potential of the product for the acute treatment of intermittent, stereotypic episodes of frequent seizure activity in the epilepsy patient population in China and other markets in the territories; (b) the prevalence and incidence of epilepsy and seizure clusters in the territories, as well as the unmet medical need and treatment gap for this condition, which may affect the demand and adoption of the product among patients, caregivers, and physicians; (c) the pricing and reimbursement strategy of the product in the territories, taking into account the affordability, accessibility, and value proposition of the product compared to existing or emerging therapies; (d) the competitive landscape and positioning of the product in the territories, considering the strengths, weaknesses, opportunities, and threats of the product relative to other products or devices for the acute treatment of seizure clusters, as well as the potential market share and penetration of the product in the territories; and (e) the sales and marketing efforts and resources of the Group in the territories, including the launch and commercialization plans, the promotional and educational activities, the distribution and supply chain management, and the post-marketing surveillance and pharmacovigilance of the product in the territories.

Review by and Confirmation of the Independent Non-executive Directors of the Company

The independent non-executive Directors have reviewed the above continuing connected transactions, and after due and careful enquiry with the management of the Group and consideration, confirmed that such transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The independent non-executive Directors are satisfied that they have received and reviewed sufficient information to give the confirmations above.

Confirmation of the Auditor

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the above mentioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

The auditors of the Group had informed the Board and confirmed nothing has come to their attention that cause them to believe that the continuing connected transactions:

(1) have not been approved by the Board;

(2) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(3) have exceeded the relevant annual cap.

In respect of the above mentioned non-exempt connected transactions, the Directors also confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, 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. Save as disclosed in the section of "Connected Transactions" of 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 2023, the Group had 5,701 employees. To meet the talents development needs of the Group, the Group has introduced external professional consulting firms and has established an internal control and management team to optimize the Group's strategy, organizational structure, improve the Group's performance management and salary incentive system, etc., further stimulate the organizational vitality and improve organizational operation efficiency, enabling the Group's human resource management to fully match with the Group's development strategy. The Group provides employees with competitive remuneration packages including medium- and long-term share award scheme, 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 programs for new employees, regulation-related trainings and job skills trainings, to continuously enhance their knowledge, skills and teamwork spirit.

Directors' and Senior Management's Emoluments

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

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

For the year ended 31 December 2023, the emoluments of the Group's senior management (including the Company Secretary but not directors) are disclosed below:

Band of Emolument	Number of Senior Management
HK$1,000,001 - HK$1,500,000	1
HK$1,500,001 - HK$2,000,000	2
HK$2,000,001 - HK$2,500,000	2
HK$2,500,001 - HK$3,000,000	4
Total	9

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 fully complies with 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 Noise Pollution (《中華人民共和國噪聲污染防治法》), and other relevant environmental laws and regulations. The Group rigorously prevents environmental risk accidents in business management and production activities, and has established environmental management structures including the Environmental, Social and Governance Committee, assigned full-time environmental management personnel, established and improved the environmental management system, and developed comprehensive risk-defensive prevention and emergency response plans 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. The National VBP is an industrial policy that has significant impact on the Group. Details of the impacts of the National VBP are set out in the section headed "Impacts of Significant Industrial Policies" in "Management Discussion and Analysis" on page 28 of this Annual Report.

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.

Furthermore, 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 2023, the percentage of sales to the Group's five largest customers was approximately 35.5% of the Group's total sales, and sales to the top customer accounted for approximately 20.2% of the total sales.

For the year ended 31 December 2023, the percentage of purchases from the Group's five largest suppliers was approximately 82.0% of the Group's total purchases, and purchase from the top supplier accounted for approximately 30.1% 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 58 to 71 of this Annual Report.

Sufficiency of Public Float

According to 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 RMB3.0 million for public services in communities, for details please refer to "Undertaking Community Responsibilities" on page 53 of the Group's 2023 Environmental, Social and Governance Report.

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 2023, 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 2023.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix C1 to the Listing Rules from 1 January 2023 to 31 December 2023, except for a deviation from the Code Provision C.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 58 to 71 of this Annual Report.

Competing Interests

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

Audit Committee

The details of the Audit Committee are set out on pages 62 to 63 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, 27 March 2024

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 Strategy, Business Model and Culture

The details of Corporate Strategy, Business Model and Culture are set out in Business Highlights, Chairman's Statement and Management Discussion and Analysis of this Annual Report.

Corporate Governance Practices

The Company has complied with and applied the applicable principles and code provisions of the CG Code as set out in Appendix C1 to the Listing Rules from 1 January 2023 to 31 December 2023, except for a deviation from the Code Provision C.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 Group's management structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Directors' Securities Transactions

The Company adopted the Written Guidelines for Securities Transactions by Directors and Relevant Employees (the "Written Guidelines") on no less exacting terms than 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 Written Guidelines 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 Written Guidelines for the year ended 31 December 2023. The Written Guidelines also apply 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 the Written Guidelines. No incident of non-compliance with the Written 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 mainly include 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 and has given clear directions as to the management's powers including where management should report back and obtain prior approval of the Board before making decisions or entering into any commitments on the Company's behalf.

Composition of the Board

As at the date of this Annual Report, the Board consists of six Directors, including the Chairman, 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 37 to 41 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. The Chairman shall promote a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between Executive Directors and non-executive Directors. The Chairman of a meeting shall ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.

Board Attendances and Time Commitment

During the Reporting Period, the Company held five 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	5/5	1/1
Mr. Chen Hongbing	Chief Operating Officer, Vice President	5/5	1/1
Ms. Chen Yanling	Chief Financial Officer, Vice President	5/5	1/1
Mr. Leung Chong Shun	Independent Non- Executive Director	4/5	1/1
Ms. Luo Laura Ying	Independent Non- Executive Director	5/5	1/1
Mr. Fung Ching Simon	Independent Non- Executive Director	5/5	1/1

During the Reporting Period, the Board had passed one set of written resolutions of the Board.

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 and Mechanisms Ensuring Independent Views and Input Available to the Board

The Nomination Committee is authorized to identify individuals suitably qualified to become independent non-executive Directors through various ways and channels, including recommendation by Directors, engaging external agencies and any other way or channel that the Nomination Committee considers appropriate. The Nomination Committee will request the candidates to provide their biographies and other information that the Nomination Committee considers necessary, and will comprehensively consider the factors including the character and integrity, the achievements and experience in the industries involved in the business of the Group, other professional qualifications, diversity factors, the time devoted to the affairs of the Board, the undertaking of the duties of the Board, and the independence requirement of independent non-executive Directors under the Listing Rules to evaluate and select candidates for independent non-executive Directors and propose one or several of them to the Board.

For the year ended 31 December 2023, there were three independent non-executive Directors, representing one-half of the Board, 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/her 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.

All independent non-executive Directors have spent sufficient time in performing their responsibilities during the Reporting Period. They monitored and ensured that the Group implemented good corporate governance. They applied their professional skills, knowledge and experience in the areas of accounting, finance, law and investment and made sufficient contributions to the Company.

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 Directors shall receive a comprehensive, formal and tailored induction on appointment, and subsequently any briefing and professional development necessary to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

During the Reporting Period, the Board had reviewed the implementation and effectiveness of the mechanisms ensuring independent views and input available to the Board and is of the view that the mechanisms worked well to ensure that the Board had access to independent views and input.

Directors' Continuous Professional Development

On appointment to the Board, each newly appointed Director has received training from professional lawyer 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. Leung Chong Shun	√	√
Ms. Luo Laura Ying	√	√
Mr. Fung Ching Simon	√	√

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.

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 2023 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 2023, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2022, the interim results for 2023, the activities of the Group's risk management and internal control functions and also discussed 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 2023
Mr. Fung Ching Simon (Chairman)	3/3
Mr. Leung Chong Shun	2/3
Ms. Luo Laura Ying	3/3

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.

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; (iv) reviewing and approving performance-based remuneration (including share schemes) 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 2023, the Remuneration Committee held one meeting. 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 2023
Mr. Leung Chong Shun (Chairman)	1/1
Ms. Luo Laura Ying	1/1
Mr. Fung Ching Simon	1/1

Nomination Committee

The Company established the Nomination Committee in 2007. The Nomination Committee comprises one executive Director and three independent non-executive Directors, and is currently chaired by Ms. Luo Laura Ying, with Mr. Lam Kong, Mr. Leung Chong Shun and Mr. Fung Ching Simon as the committee members.

The primary duties of the Nomination Committee are to make recommendations to the Directors on all new appointments of Directors and senior management, interview 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 2023, 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 2022 annual general meeting, and also assessed whether the independent non-executive Directors had spent enough time in fulfilling their duties and their independence. The Nomination 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 2023
Ms. Luo Laura Ying (Chairman)	2/2
Mr. Lam Kong	2/2
Mr. Leung Chong Shun	2/2
Mr. Fung Ching Simon	2/2

Policy for the Nomination of Directors

The Company has adopted the Policy for the Nomination of Directors (the "Nomination Policy"). During the Reporting Period, the Nomination Committee had reviewed the Nomination Policy and recommend certain housekeeping changes to the Nomination Policy.

The Nomination Policy sets out the selection criteria and the nomination procedures of Directors.

The Nomination Committee is authorized to identify individuals suitably qualified to become Board members through various ways and channels, including recommendation by Directors, engaging external agencies and any other way or channel that the Nomination Committee considers appropriate. The Nomination Committee will request the candidates to provide their biographies and other information that the Nomination Committee considers necessary, and will comprehensively consider the factors including the character and integrity, the achievements and experience in the industries involved in the business of the Group, other professional qualifications, diversity factors, the time devoted to the affairs of the Board, the undertaking of the duties of the Board, and the independence requirement of independent non-executive Directors under the Listing Rules to evaluate and select candidates. After considering the suitability of a candidate to become a Director, the Nomination Committee will call a meeting and/or pass a written resolution to recommend appointment of Director to the Board. The Board will make a final decision based on the recommendation of the Nomination Committee. The Company may from time to time increase the number of Directors by ordinary resolution at general meetings pursuant to Article 16.3 of the Articles of Association. Shareholders may also nominate persons to be elected as Directors at general meetings pursuant to Article 16.4 of the Articles of Association.

The Nomination Committee and the Board shall, in accordance with the Listing Rules and Article 16.18 of the Articles of Association, determine the candidates for re-election of Directors at the general meetings through the following procedures: the Nomination Committee shall review the retiring Directors' overall contribution and service to the Company and their participation and performance in Board affairs, and take into account the Company's strategy at that time and the structure, size and composition of the Board, to consider the suitability of the retiring Directors to be re-appointed. The Nomination Committee shall submit its recommendations to the Board for consideration based on the above consideration. The Board shall, as appropriate, make recommendations to the shareholders that the retiring Directors be re-elected at the general meetings.

Board Diversity Policy and Gender Diversity

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 "Board Diversity 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 Board Diversity 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 and the Board review the Board Diversity Policy and its implementation and effectiveness on a regular basis to ensure its continued effectiveness. During the Reporting Period, the Nomination Committee and the Board had reviewed the Board Diversity Policy and its implementation and effectiveness and considers it to be effective.

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	
	2		4	
Length of Service	2 years and below	3-4 years	5-9 years	10 years and above
	1	1	1	3
Professional Background	Pharmaceuticals, Accounting, Investment, Law			

As at 31 December 2023, the Board consists of six members, including two female members. Female Board members represent 33.3% of the Board. The Board considers that it has achieved gender diversity. The Board wishes to at least maintain its current female ratio (33.3%). The Nomination Committee shall continue to consider and implement the Board Diversity Policy in future selection and recommendation of Board member candidates. The Board shall continue to introduce female members if it considers the candidates suitable with the ultimate goal of achieving gender parity within the Board.

Female senior management members represent 33.3% of the senior management of the Company. Female middle-senior management members represent 34.1% of the middle-senior management of the Group. Female employees represent 54.8% of the employees of the Group. The Group wishes to keep the ratio of its female employees not lower than 50%.

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.

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 2023, 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 2022 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 2023
Ms. Chen Yanling (Chairman)	4/4
Mr. Leung Chong Shun	4/4
Mr. Fung Ching Simon	4/4

Corporate Governance Functions

No corporate governance committee has been established, and the Board is responsible for performing the corporate governance functions developing and reviewing the Company's policies and practices on corporate governance, providing training and continuous professional development for Directors and senior management, 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 2023, 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$4.7 million and HK$2.8 million, respectively. The non-auditing services covered tax advisory service, due diligence service and ESG related assurance 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 2023. 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 on pages 75 to76 of the independent auditor's report.

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's finance department, compliance department, audit department, legal department and various operating departments are responsible for the implementation of risk management policies and routine risk management work. The Group's 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.

The Group has a strict reporting system and specified the reporting channels, treatment procedure, whistleblower protection and other related issues in the CMS Anti-fraud Management Policy to ensure that all reporting can be properly handled. During the Reporting Period, the Company has optimized and amended the CMS Anti-fraud Management Policy and Audit Policy. 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 over the recourses and corporate governance roles in the Group's financial, operational, compliance, risk management, internal controls, internal audit, ESG performance and reporting related functions by reviewing the working report from internal audit and external audit. During the Reporting Period, the Group's internal audit ("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 control over business continuity, compliance risks and fraud risks. The Group's Internal Audit reported such results 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 adequate and effective with adequate resources, staff qualifications and experience, training programs for the staff and budget for the accounting, internal audit, financial reporting and ESG performance and reporting functions, etc.

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, Wan Chai, 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 publicly 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

The third amended and restated memorandum and articles of association of the Company was adopted by special resolution at the AGM held on 28 April 2023 to, inter alia, (i) conform to the core standards for shareholder protections set out in Appendix A1 to the Listing Rules and the relevant requirements of the applicable laws of the Cayman Islands; (ii) to provide flexibility to the Company in relation to the conduct of general meetings; and (iii) to incorporate certain housekeeping changes. The amended and restated memorandum and articles of association of the Company is available at the websites of the Company and the Stock Exchange.

Save as disclosed, there were no changes made to the during the year ended 31 December 2023.

The Company proposes to amend Articles of Association to bring it up to date and better apply the latest regulatory requirements in relation to the expanded paperless listing regime and the electronic dissemination of corporate communications by listed issuers and the relevant amendments made to the Listing Rules which took effect on 31 December 2023. The proposed amendments are subject to the passing of a special resolution by the shareholders of the Company at the forthcoming AGM of the Company to be held on 9 May 2024.

A circular containing, among others, details of the proposed amendments and a notice convening the AGM will be dispatched to the shareholders of the Company.

Communications with Shareholders and Investors

The Group has been attaching a great importance to the communication and interaction with shareholders and investors, and actively enriched our communication channels and methods to disclose information that is important to shareholders and investors in a timely and effective manner, delivering business strategies and updates transparently and objectively. Meanwhile, the Group have earnestly listened to the valuable feedbacks from the capital market to continuously improve our corporate governance. In order to effectively regulate the relevant practice, the Group has established *Investors (Shareholders Included) Communication Policy* and has regularly reviewed and assessed its implementation and effectiveness. During the Reporting Period, the Board had reviewed the *Investors (Shareholders Included) Communication Policy* and considered it to be properly implemented and effective.

The Group has interacted with its shareholders and investors mainly through the following channels, and proactively solicited and responded to the opinions of shareholders and investors: (i) holding Annual General Meetings and Extraordinary General Meetings; (ii) publishing Annual and Interim Reports, proactively issuing various Voluntary Announcements to update the Company's business in a timely manner; (iii) releasing latest news and updates of the Group on its official website, WeChat accounts and financial media platforms; (iv) disclosing the contact of investor relations department and offering an interaction function on the Group's official website to facilitate enquiries from investors; (v) organizing online and offline Interim and Annual Results Announcement Conferences; (vi) organizing and receiving investors visits and conference calls, etc.; (vii) actively participating in various conferences organized by sell-sides, such as investment summits, roadshows, and others. During the Reporting Period, the management and the investor relations team of the Group have received approximately a thousand representatives of domestic and overseas individuals and institutional investors.

The Group's excellent corporate governance, as well as active and persistent communication with shareholders and investors have been recognized by third parties. During the Reporting Period, the Group was included in the "Hang Seng Innovative Drug Index", listed as the "Top 25 Listed Pharmaceutical Companies" of "Top 100 Hong Kong Listed Companies" for the third consecutive year, and awarded the "Most Popular Southbound Stock Connect Company" of Annual Golden GuruClub Awards. In addition, the Group was included in the First "Sustainability Yearbook (China)" of S&P Global, once again selected as the "TOP 20 ESG Competitiveness of Chinese Pharmaceutical Listed Companies", and received awards such as the "Pioneer in Corporate Governance" and the "Most Socially Responsible Listed Company", etc.

In the future, the Group will continue to maintain sincere and effective communication with domestic and overseas investors through diverse communication channels, listen attentively to voices from the capital market, and continuously refine its investor relations efforts.

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 77 to 185, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information and other explanatory information.

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 2023, 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 the cash generating unit of Tianjin Kangzhe Vision 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 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 2023, the carrying value of goodwill was RMB990,333,000. 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, on a sample basis; • 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
(incorporated in the Cayman Islands with limited liability)

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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
27 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Revenue	5	8,013,285	9,150,347
Cost of goods sold		(1,904,119)	(2,114,500)
Gross profit		6,109,166	7,035,847
Other income	6	232,091	198,578
Other gains and losses	7	(335,997)	(4,195)
Selling expenses		(2,511,341)	(2,721,312)
Administrative expenses		(656,628)	(636,612)
Finance costs	8	(46,251)	(49,086)
Research and development expenses		(195,134)	(125,431)
Share of results of associates		274,977	65,061
Share of result of a joint venture		2,888	-
Profit before tax		2,873,771	3,762,850
Income tax expense	11	(489,341)	(486,655)
Profit for the year	12	2,384,430	3,276,195
Other comprehensive (expenses) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		(133,155)	(196,197)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		5,507	35,357
Exchange differences arising on translation of foreign operations		1,074	16,092
Exchange differences arising on translation of Interests in associates		14,589	18,315
Change in fair value on cash flow hedges			
- fair value (loss) gain		(8,902)	10,861
- deferred tax relating to change in fair value		652	(892)
Other comprehensive expense for the year, net of income tax		(120,235)	(116,464)
Total comprehensive income for the year		2,264,195	3,159,731
Profit (loss) for the year attributable to:			
Owners of the Company		2,400,940	3,258,992
Non-controlling interests		(16,510)	17,203
		2,384,430	3,276,195
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		2,280,705	3,142,528
Non-controlling interests		(16,510)	17,203
		2,264,195	3,159,731
		RMB	RMB
Earnings per share	14		
Basic		0.9792	1.3281

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	15	397,616	425,480
Right-of-use assets	16	76,124	69,979
Interests in associates	17(a)	3,271,934	3,044,818
Interest in a joint venture	17(b)	179,049	-
Intangible assets	18	2,216,092	2,066,423
Goodwill	19	1,547,903	1,665,993
Equity instruments at fair value through other comprehensive income	20(b)	163,893	297,048
Deposits paid for acquisition of intangible assets	23	1,013,395	1,285,415
Amounts due from associates	24	30,000	30,000
Deferred tax assets	31	40,396	39,007
		8,936,402	8,924,163
Current assets			
Inventories	21	637,636	477,206
Financial assets at fair value through profit or loss	20(a)	1,832,258	1,491,336
Trade and other receivables and prepayments	22	1,568,587	2,043,944
Loan receivable		35,945	70,168
Tax recoverable		784	253
Derivative financial instruments	32	-	42,021
Amounts due from associates	24	408,167	328,072
Bank balances and cash	25	4,311,058	4,376,376
		8,794,435	8,829,376
Current liabilities			
Trade and other payables	26	436,976	563,194
Lease liabilities	27	15,416	15,804
Contract liabilities	28	12,733	21,614
Bank borrowings	29	1,269,650	1,783,337
Derivative financial instrument	32	17,227	562
Deferred consideration payables		1,000	1,000
Tax liabilities		295,784	327,819
Obligation arising from put options	30	-	163,773
		2,048,786	2,877,103
Net current assets		6,745,649	5,952,273
Total assets less current liabilities		15,682,051	14,876,436

	NOTES	2023 RMB'000	2022 RMB'000
Capital and reserves			
Share capital	33	83,991	83,991
Reserves	34	15,436,217	14,505,076
Equity attributable to owners of the Company		15,520,208	14,589,067
Non-controlling interests		36,199	148,010
		15,556,407	14,737,077
Non-current liabilities			
Deferred tax liabilities	31	108,973	124,959
Lease liabilities	27	16,671	13,491
Deferred consideration payables		-	909
		125,644	139,359
		15,682,051	14,876,436

The consolidated financial statements on pages 77 to 185 were approved and authorised for issue by the Board of Directors on 27 March 2024 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 2023

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 34)	Surplus reserve fund RMB'000 (Note 34)	Translation reserve RMB'000	Hedging reserve RMB'000	Investments revaluation reserve RMB'000	Share-based payments reserve RMB'000	Other reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2022	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
Profit for the year	-	-	-	-	-	-	-	-	-	3,258,992	-	3,258,992	17,203	3,276,195
Share of other comprehensive income of associates	-	-	-	-	35,357	-	-	-	-	-	-	35,357	-	35,357
Exchange differences arising on translation of foreign operations	-	-	-	-	16,092	-	-	-	-	-	-	16,092	-	16,092
Exchange differences arising on translation of interests in an associate	-	-	-	-	18,315	-	-	-	-	-	-	18,315	-	18,315
Fair value loss on investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(196,197)	-	-	-	-	(196,197)	-	(196,197)
Change in fair value on cash flow hedges														
- fair value gain	-	-	-	-	-	10,861	-	-	-	-	-	10,861	-	10,861
- deferred tax relating to change in fair value	-	-	-	-	-	(892)	-	-	-	-	-	(892)	-	(892)
Total comprehensive income (expense) for the year	-	-	-	-	69,764	9,969	(196,197)	-	-	3,258,992	-	3,142,528	17,203	3,159,731
Repurchase of ordinary shares (Note 33)	(186)	(48,196)	-	-	-	-	-	-	-	-	-	(48,382)	-	(48,382)
Acquisition of a subsidiary (Note 42(b))	-	-	-	-	-	-	-	-	-	-	-	-	3,174	3,174
Non-controlling interests arising from incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	33,090	33,090
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	18,716	-	-	-	18,716	-	18,716
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	-	(718,645)	(557,594)	(1,276,239)	-	(1,276,239)
Dividends proposed (Note 13)	-	-	-	-	-	-	-	-	-	(591,910)	591,910	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	20,675	-	-	(20,675)	-	-	-	-
Transfer of reserves	-	-	-	32,734	-	-	-	-	-	(32,734)	-	-	-	-
Balance at 31 December 2022	83,991	2,105,621	19,545	394,885	43,882	8,250	(242,023)	(18,716)	76,352	11,525,370	591,910	14,589,067	148,010	14,737,077
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	2,400,940	-	2,400,940	(16,510)	2,384,430
Share of other comprehensive income of associates	-	-	-	-	5,507	-	-	-	-	-	-	5,507	-	5,507
Exchange differences arising on translation of foreign operations	-	-	-	-	1,074	-	-	-	-	-	-	1,074	-	1,074
Exchange differences arising on translation of interests in associates	-	-	-	-	14,589	-	-	-	-	-	-	14,589	-	14,589
Fair value loss on investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(133,155)	-	-	-	-	(133,155)	-	(133,155)
Change in fair value on cash flow hedges														
- fair value loss	-	-	-	-	-	(8,902)	-	-	-	-	-	(8,902)	-	(8,902)
- deferred tax relating to change in fair value	-	-	-	-	-	652	-	-	-	-	-	652	-	652
Total comprehensive income (expense) for the year	-	-	-	-	21,170	(8,250)	(133,155)	-	-	2,400,940	-	2,280,705	(16,510)	2,264,195
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	1,560	-	-	-	1,560	-	1,560
Repurchase of shares from non-controlling interests	-	-	-	-	-	-	-	54,588	(76,352)	68,435	-	46,671	1,749	48,420
Share-based payment forfeited	-	-	-	-	-	-	-	(37,432)	-	-	-	(37,432)	-	(37,432)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(73,886)	(73,886)
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(23,164)	(23,164)
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	-	(768,453)	(591,910)	(1,360,363)	-	(1,360,363)
Dividends proposed (Note 13)	-	-	-	-	-	-	-	-	-	(191,991)	191,991	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	3,222	-	-	(3,222)	-	-	-	-
Transfer of reserves	-	-	-	30,750	-	-	-	-	-	(30,750)	-	-	-	-
Balance at 31 December 2023	83,991	2,105,621	19,545	425,635	65,052	-	(371,956)	-	-	13,000,329	191,991	15,520,208	36,199	15,556,407

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
OPERATING ACTIVITIES			
Profit before tax		2,873,771	3,762,850
Adjustments for:			
Amortisation of intangible assets	18	163,504	165,769
Impairment loss on goodwill		-	60,000
Impairment loss on interest in a joint venture		44,000	-
Impairment loss on intangible assets		8,025	-
Impairment loss on inventories		33,215	-
Impairment loss on prepayment		23,450	-
Impairment loss on financial assets under expected credit loss model, net of reversal		52,723	110
Impairment loss on deposit paid for acquisition of intangible assets		163,462	2,003
Interest expenses		45,213	37,553
Depreciation of property, plant and equipment	15	45,797	43,310
Depreciation of right-of-use assets	16	20,264	18,147
Loss on disposal of property, plant and equipment		265	403
Imputed interest expense on deferred consideration payables		91	173
Imputed interest expense on obligation rising from put options		947	11,360
Share of results of associates		(274,977)	(65,061)
Share of result of a joint venture		(2,888)	-
Interest income		(146,475)	(105,515)
Dividends from financial assets at FVTPL		(30,620)	-
Net foreign exchange (gain) loss		(3,494)	155,744
Change in fair value of derivative financial instruments		49,785	(41,889)
Change in fair value of financial assets at fair value through profit or loss		16,750	(150,009)
(Reversal of) share-based payments, net		(35,872)	18,716
Operating cash flows before movements in working capital		3,046,936	3,913,664
(Increase) decrease in inventories		(235,767)	8,156
Decrease in trade and other receivables and prepayments		410,558	163,914
Increase in amounts due from associates		(80,095)	(8,036)
Decrease in trade and other payables		(82,845)	(71,858)
Decrease in contract liabilities		(8,881)	(2,101)

	NOTES	2023 RMB'000	2022 RMB'000
Cash generated from operations		3,049,906	4,003,739
People's Republic of China (the "PRC") Enterprise Income Tax paid		(391,922)	(284,566)
Hong Kong Profits Tax paid		(569)	(122)
Macau Complementary Income Tax paid		(154,562)	(165,808)
NET CASH FROM OPERATING ACTIVITIES		2,502,853	3,553,243
INVESTING ACTIVITIES			
Interest received		146,475	103,152
Dividend received from an associate		180,421	31,305
Dividends received from financial assets at FVTPL		30,620	-
Purchase of property, plant and equipment		(27,490)	(18,336)
Payments for right-of-use assets		(14,701)	-
Proceeds from disposal of property, plant and equipment		318	2,323
Disposal of financial assets at fair value through profit or loss		20,343	185
Disposal of equity instruments at fair value through other comprehensive income		-	2,841
Purchase of financial assets at fair value through profit or loss		(378,015)	(363,638)
Purchase of equity instruments at fair value through other comprehensive income		-	(95,615)
Purchase of intangible assets		(6,604)	-
Payments for rental deposits		(859)	(184)
Deposits paid for acquisition of intangible assets		(269,165)	(506,585)
Acquisition of an associate		-	(233,713)
Capital injection to associates		(112,464)	(36,117)
Net cash outflow on deemed disposal of a subsidiary	43	(11,155)	-
Loan to third parties		-	(34,823)
Net cash outflow on acquisition of subsidiaries	42	-	(28,997)
NET CASH USED IN INVESTING ACTIVITIES		(442,276)	(1,178,202)

	NOTE	2023 RMB'000	2022 RMB'000
FINANCING ACTIVITIES			
New bank borrowings raised		1,276,535	1,375,013
Repayment for deferred consideration payable		(1,000)	(1,000)
Interest paid		(45,213)	(37,553)
Dividends paid	13	(1,360,363)	(1,276,239)
Repayment of bank borrowings		(1,786,728)	(1,427,993)
Repayments of lease liabilities		(18,069)	(16,850)
Repurchase of shares from non-controlling interest		(116,300)	-
Dividends paid to non-controlling interest		(73,886)	-
Payment on repurchase of shares		-	(48,382)
Capital contribution from non-controlling interest		-	33,090
NET CASH USED IN FINANCING ACTIVITIES		(2,125,024)	(1,399,914)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(64,447)	975,127
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		4,376,376	3,385,739
Effects of exchange rate changes on the balance of cash held in foreign currencies		(871)	15,510
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH		4,311,058	4,376,376

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 research and development, production, promotion and sale of medicines.

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")

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

In the current year, the Group has applied the following new and amendments to IFRSs for the first time, which are mandatorily effective for the annual periods beginning on 1 January 2023 for the preparation of the consolidated financial statements:

IFRS 17	Insurance Contracts (including the relevant amendments)
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

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

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

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

Impacts on application of Amendments to IAS 8 Definition of Accounting Estimates

The Group has applied the amendments for the first time in the current year. The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current year had no material impact on the consolidated financial statements.

Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. IAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3 to the consolidated financial statements.

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

Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following Amendments to IFRS Standards that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

[1] Effective for annual periods beginning on or after a date to be determined
[2] Effective for annual periods beginning on or after 1 January 2024
[3] Effective for annual periods beginning on or after 1 January 2025

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 IAS 1 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and Amendments to IAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation.*
- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

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

Amendments to IFRSs in issue but not yet effective - continued

Amendments to IAS 1 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and Amendments to IAS 1 Non-current Liabilities with Covenants (the "2022 Amendments") *- continued*

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2023, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by International Accounting Standards Board. 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information

Basis of consolidation

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Basis of consolidation - continued

Changes in the Group's interests in existing subsidiaries

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

Goodwill

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

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

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

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Goodwill - continued

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

Interests in associates and a joint venture

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and a joint venture 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 or a joint venture 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 or joint venture. 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 or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

An interest in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the interest in an associate or a joint venture, 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Interests in associates and a joint venture - continued

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture 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 or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interests in the associate or joint venture 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 construction in progress 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, including costs of testing whether the related assets is functioning properly. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of IAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Property, plant and equipment - continued

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Intangible assets - continued

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

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

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

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).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Impairment on property, plant and equipment, right-of-use assets, deposits paid for acquisition of intangible assets and intangible assets other than goodwill - continued

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

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 MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

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.

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 not a 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost 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.

(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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, loan receivable, amounts due from associates 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.

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;

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under IFRS 9 - continued

(i) Significant increase in credit risk - continued

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

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

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

(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 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:

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under IFRS 9 - continued

(iii) Credit-impaired financial assets - continued

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

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under IFRS 9 - continued

(v) Measurement and recognition of ECL - continued

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.

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.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "Other gains and losses" line item (note 7) as part of the foreign exchange gains/(losses);

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial assets - continued

Foreign exchange gains and losses - continued

- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "Other gains and losses" line item as part of the gain/(loss) from changes in fair value of financial assets (note 7);
- For equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the fair value through other comprehensive income/revaluation reserve.

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments

Classification as debts or equity

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

Equity instruments

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Equity instruments - continued

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities at FVTPL - continued

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. 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 and bank borrowings and deferred consideration payables, are subsequently measured at amortised cost, using the effective interest method.

Bank borrowings

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

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the "Other gains and losses" line item in profit or loss (note 7) as part of net foreign exchange gains/(losses) for financial liabilities that are not part of a designated hedging relationship.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in Note 5.

Taxation

Income tax expense represents the sum of the sum of current and deferred income tax expense.

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

Deferred tax is recognised on 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 and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Taxation - continued

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities, and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of 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. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in 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.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION - continued

3.2 Material accounting policy information - continued

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises 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".

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 the 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 when employees have rendered service entitling them to the contributions.

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

In respect of the non-mandatory provident fund schemes, contributions payable by the Group are reduced by the amount of 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to eight (2022: nine) 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 2023, no impairment on goodwill (2022: RMB60,000,000) was recognised in profit or loss. As at 31 December 2023, the carrying amount of goodwill is approximately RMB1,547,903,000 (2022: RMB1,665,993,000) (net of accumulated impairment loss of RMB170,000,000 (2022: RMB250,000,000)).

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 2023, an impairment loss of RMB8,025,000 (2022: nil) was recognised in profit or loss. As at 31 December 2023, the carrying amount of intangible assets is approximately RMB2,216,092,000 (2022: RMB2,066,423,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

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. As at 31 December 2023, the carrying amount of trade receivables amounted to RMB1,146,738,000 (2022: RMB1,442,035,000) were net of impairment allowance under ECL model. The information about the ECL and the Group's trade receivables are disclosed in notes 36 and 22, respectively.

Fair value measurement of financial instruments

As at 31 December 2023, the Group's unquoted equity instruments at FVTOCI amounting to RMB125,344,000 (2022: RMB233,047,000) and financial assets, being unlisted investments at FVTPL amounting to RMB1,829,656,000 (2022: RMB1,491,336,000), are measured at fair values with fair values being determined based on significant unobservable inputs using valuation techniques and the relevant inputs thereof. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 20 for further disclosures.

Estimated impairment of deposits paid for acquisition of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its deposits paid for acquisition of intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. If the recoverable amount of the deposits paid for acquisition of intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. During the year ended 31 December 2023, an impairment loss of RMB163,462,000 (2022: RMB2,003,000) was recognised in profit or loss. As at 31 December 2023, the carrying amount of the deposits paid for acquisition of intangible assets is approximately RMB1,013,395,000 (2022: RMB1,285,415,000).

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	2023 RMB'000	2022 RMB'000
Sales of pharmaceutical products	5,936,515	7,055,729
Promotion income	2,076,770	2,094,618
Total revenue	8,013,285	9,150,347

(ii) Performance obligations for contracts with customers and revenue recognition policies

The Group mainly sells pharmaceutical products to distributors which would then further be sold to hospital and medical institutions throughout the PRC and provides promotion services to certain pharmaceutical manufacturers.

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

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

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

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

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

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

5. REVENUE AND SEGMENT INFORMATION - continued

(ii) Performance obligations for contracts with customers and revenue recognition policies - continued

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. 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.

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

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.

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.

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.

5. REVENUE AND SEGMENT INFORMATION - continued

(ii) Performance obligations for contracts with customers and revenue recognition policies - continued

Principal versus agent - continued

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.

(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 research and development, 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 research and development, production, promotion and sale of medicines are primarily in the PRC. Almost all revenue from external customers is attributed to the PRC, 86% and 14% (2022: 79% and 21%) of non-current assets excluding amounts due from associates, derivative financial instruments and deferred tax assets of the Group are located in the PRC and Dubai, respectively.

Sales to the largest customer of the Group account for 20.2% (2022: 14.4%) 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 2023.

6. OTHER INCOME

	2023 RMB'000	2022 RMB'000
Interest income	146,475	105,515
Government subsidies (Note)	85,616	93,063
	232,091	198,578

Note: 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

	2023 RMB'000	2022 RMB'000
Impairment loss on goodwill	-	(60,000)
Impairment loss on interest in a joint venture	(44,000)	-
Impairment loss on deposit paid for acquisition of intangible assets	(163,462)	(2,003)
Impairment loss on intangible assets	(8,025)	-
Impairment loss on prepayment	(23,450)	-
Impairment loss on inventory	(33,215)	-
Impairment losses under ECL model, net of reversal	(52,723)	(110)
Loss on disposal of property, plant and equipment	(265)	(403)
Net foreign exchange gain (loss)	31,540	(126,214)
Change in fair value of derivative financial instruments	(49,785)	41,889
Change in fair value of financial assets at FVTPL	(16,750)	150,009
Dividends from financial assets at FVTPL	30,620	-
Others	(6,482)	(7,363)
	(335,997)	(4,195)

8. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on bank borrowings	42,997	35,455
Interest on lease liabilities	2,216	2,098
Interest on obligation arising from put options	947	11,360
Imputed interest on deferred consideration payables	91	173
	46,251	49,086

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 2023						
	Executive Directors (Note b)		Independent Non-executive Directors (Note c)			Executive Director and chief executive (Note b)	
	Chen Hong Bing	Chen Yan Ling	Fung Ching, Simon	Leung Chong Shun	Luo, Laura Ying	Lam Kong	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000
Fees	323	323	323	323	323	323	1,938
Other emoluments							
Salaries and other benefits	4,610	4,072	-	-	-	5,088	13,770
Contributions to retirement benefits schemes	106	33	-	-	-	32	171
Total emoluments	5,039	4,428	323	323	323	5,443	15,879

	Year ended 31 December 2022						
	Executive Directors (Note b)		Independent Non-executive Directors (Note c)			Executive Director and chief executive (Note b)	
	Chen Hong Bing	Chen Yan Ling	Fung Ching, Simon	Leung Chong Shun	Luo, Laura Ying	Lam Kong	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000
Fees	308	308	308	308	308	308	1,848
Other emoluments							
Salaries and other benefits	4,397	3,144	-	-	-	5,182	12,723
Contributions to retirement benefits schemes	103	30	-	-	-	31	164
Total emoluments	4,808	3,482	308	308	308	5,521	14,735

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.

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 2023 included 3 directors (2022: 3 directors), details of whose emoluments are set out in note 9 above. The emoluments of the remaining two (2022: two) individuals for the year ended 31 December 2023 were as follows:

	2023 RMB'000	2022 RMB'000
Employees		
- basic salaries and allowances	4,979	5,689
- equity-settled share-based expense	-	18,716
- retirement benefits scheme contributions	109	97
	5,088	24,502

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	
	2023	2022
HK$2,500,001 to HK$3,000,000	2	-
HK$3,500,001 to HK$4,000,000	-	1
HK$25,000,001 to HK$26,000,000	-	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

	2023 RMB'000	2022 RMB'000
Current tax:		
The PRC Enterprise Income Tax ("EIT")	265,088	330,406
Hong Kong Profits Tax	63,744	2,317
Macau Complementary Income Tax	69,287	143,409
Withholding tax	83,198	-
	481,317	476,132
Under provision in prior years:		
The PRC EIT	8,590	14,450
Hong Kong Profits Tax	579	-
	9,169	14,450
Deferred taxation (note 31):		
- Current year	(1,145)	(3,927)
	489,341	486,655

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.

天津康哲維盛醫藥科技發展有限公司 (Formerly known as 天津康哲醫藥科技發展有限公司) (Tianjin Kangzhe Vision Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2022: 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% (2022: 15%) granted by local tax authority until 2025. 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% (2022: 9%) granted by local tax authority until 2025. 海南康哲美麗科技有限公司 (Hainan Kangzhe Aesthetics Technology Co., Ltd) is entitled to a reduced tax rate of 15% (2022: 15%) granted by local tax authority until 2024.

11. INCOME TAX EXPENSE - continued

Notes:- continued

(b) 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.

(c) 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.

(d) 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.

(e) 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 2023 and 2022.

(f) 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:

	2023 RMB'000	2022 RMB'000
Profit before tax	2,873,771	3,762,850
Tax at PRC EIT rate of 25%	718,443	940,713
Tax effect of share of results of associates	(68,744)	(16,265)
Tax effect of share of result of a joint venture	(722)	-
Tax effect of expenses that are not deductible in determining taxable profit	138,053	100,862
Tax effect of income that is not taxable in determining taxable profit	(14,783)	(870)
Tax effect of offshore income that is not taxable in determining taxable profit	-	(94,400)
Tax effect of tax losses not recognised	22,251	23,247
Tax effect of deductible temporary differences not recognised	(2,717)	6,838
Tax effect of tax concession	(231,162)	(203,779)
Effect on different applicable tax rates of subsidiaries	(90,031)	(135,332)
Effect of taxable profit that is not taxable in Dubai	(75,770)	(143,256)
Under provision in prior years	9,169	14,450
Withholding tax	83,198	-
Others	2,156	(5,553)
Income tax expense for the year	489,341	486,655

12. PROFIT FOR THE YEAR

	2023 RMB'000	2022 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 9)		
Fees	1,938	1,848
Salaries and other benefits	13,770	12,723
Contribution to retirement benefits schemes	171	164
	15,879	14,735
Other staff costs	1,252,100	1,189,251
Equity-settled share-based expense, net of reversal upon cancellation	(35,872)	18,716
Contribution to retirement benefits schemes	279,850	217,691
Employee benefits expense (note 41)	5,160	5,760
Total staff costs	1,517,117	1,446,153
Auditor's remuneration	4,211	4,246
Depreciation of property, plant and equipment	45,797	43,310
Depreciation of right-of-use assets	20,264	18,147
Amortisation of intangible assets (included in cost of goods sold)	163,504	165,769
Cost of inventories recognised as an expense	1,732,806	1,941,753

13. DIVIDENDS

	2023 RMB'000	2022 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2023 Interim - RMB0.3134 (2022: 2022 Interim dividend RMB0.2930) per share	768,453	718,645
2022 Final - RMB0.2414 (2022: 2021 final dividend RMB0.2269) per share	591,910	557,594
	1,360,363	1,276,239
Dividends proposed		
Dividends proposed during the year:		
2023 final - RMB0.0783 (2022: 2022 final - RMB0.2414) per share	191,991	591,910

Subsequent to the end of the reporting period, the Board of Directors have declared a final dividend of RMB0.0783 per ordinary share for the year ended 31 December 2023 (2022: RMB0.2414 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:

	2023 RMB'000	2022 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	2,400,940	3,258,992

	Number of ordinary shares as at 31 December	
	2023	2022
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,451,988,512	2,453,940,224

The computation of diluted earnings per share did 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 2022.

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 2022	329,981	60,948	182,393	36,907	37,097	13,125	660,451
Additions	9	5,072	5,537	73	7,118	527	18,336
Acquired on acquisition of a subsidiary	-	-	-	-	26	-	26
Disposals	-	-	(2,235)	(3,134)	(2,500)	-	(7,869)
Transfer	-	73	-	-	831	(904)	-
At 31 December 2022	329,990	66,093	185,695	33,846	42,572	12,748	670,944
Additions	255	11,548	3,051	68	12,157	411	27,490
Disposals	-	(117)	(255)	(393)	(1,864)	-	(2,629)
Deemed disposal of a subsidiary (Note 43)	(19,484)	-	(15,117)	(201)	(2,738)	(434)	(37,974)
Transfer	103	3,989	5,633	-	3,000	(12,725)	-
At 31 December 2023	310,864	81,513	179,007	33,320	53,127	-	657,831
ACCUMULATED DEPRECIATION							
At 1 January 2022	74,226	19,986	71,451	29,037	12,597	-	207,297
Provided for the year	13,162	7,174	13,643	3,559	5,772	-	43,310
Eliminated on disposals	-	-	(1,440)	(2,821)	(882)	-	(5,143)
At 31 December 2022	87,388	27,160	83,654	29,775	17,487	-	245,464
Provided for the year	14,697	10,744	11,875	2,187	6,294	-	45,797
Eliminated on disposals	-	-	(227)	(185)	(1,634)	-	(2,046)
Eliminated on deemed disposal of a subsidiary (Note 43)	(13,199)	-	(13,057)	(185)	(2,559)	-	(29,000)
At 31 December 2023	88,886	37,904	82,245	31,592	19,588	-	260,215
CARRYING VALUES							
At 31 December 2023	221,978	43,609	96,762	1,728	33,539	-	397,616
At 31 December 2022	242,602	38,933	102,041	4,071	25,085	12,748	425,480

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 2023 and 2022, the Group had no pledged property, plant and equipment to source bank borrowing and banking facilities granted to the Group.

16. RIGHT-OF-USE ASSETS

	Leasehold land	Building	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2023			
Carrying amount	45,890	30,234	76,124
As at 31 December 2022			
Carrying amount	42,091	27,888	69,979
For the year ended 31 December 2023			
Depreciation charge	996	19,268	20,264
For the year ended 31 December 2022			
Depreciation charge	1,218	16,929	18,147

	Year ended 31/12/2023	Year ended 31/12/2022
	RMB'000	RMB'000
Expense relating to short-term leases	26,780	12,340
Total cash outflow for leases	(47,065)	(31,288)
Additions to right-of-use assets	35,562	11,413

For both years, the Group leases offices premises and warehouses for its operations. For the year ended 31 December 2023, lease contracts are entered into for fixed term of 1 year to 20 years (2022: 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 2023 and 2022, the Group had no pledged right-of-use assets to source ure general banking facilities granted to the Group.

The Group regularly entered into short-term leases for offices premises and warehouses. As at 31 December 2023 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

16. RIGHT-OF-USE ASSETS - continued

During the year ended 31 December 2023, the Group had made payments of RMB14,701,000 (2022: nil) for leasehold land which were recognised as additions to right-of-use assets. All the Group's leasehold lands represented prepaid land use right, are located in the PRC.

17. INTERESTS IN ASSOCIATES/A JOINT VENTURE

(a) Interests in associates

	2023 RMB'000	2022 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Unlisted	412,294	299,830
Share of post-acquisition profits and other comprehensive income, net of dividends received	522,380	422,317
Exchange adjustments	32,904	18,315
	3,271,934	3,044,818
Fair value of listed investment (Note)	4,519,786	3,326,859

Note: As at 31 December 2023, 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 RMB4,520 million (2022: approximately RMB3,327 million) based on the quoted market price available on the SSE, which is a level 1 input in terms of IFRS 13 Fair Value Measurement.

As at 31 December 2023 and 2022, details of the associates are as follows:

Names of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest /voting rights held by the Group		Principal activities
			2023	2022	
Tibet Pharmaceutical (Note i)	Tibet	Tibet	37.36%	37.36%	Production of medicines and sale of drugs
Shenzhen Kangmai Biotechnology Co., Ltd. (Note ii)	PRC	PRC	50.00%	50.00%	Research and development of antibodies medicines
Eye Tech Care (Note iii)	France	France	36.17%	36.17%	Research and development of therapeutic ultrasound device
PharmaGend Global Medical Services Pte. Ltd (formerly known as Rxilient Biohub Pte. Ltd (Note iv)	Singapore	Singapore	45.00%	N/A	Production of medicines and sale of drugs

17. INTERESTS IN ASSOCIATES/A JOINT VENTURE - continued

(a) Interests in associates - continued

Notes:

(i) 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 2023, there is a goodwill of approximately RMB1,654,481,000 (2022: RMB1,654,481,000).

As at 31 December 2023 and 2022, no impairment indicator on interest in Tibet Pharmaceutical and no impairment assessment was carried out.

(ii) The Group owns 50.00% of equity interest in Shenzhen Kangmai Biotechnology Co., Ltd ("Shenzhen Kangmai"), however, the Group appointed one director out of three directors and is able to exercise significant influence over Shenzhen Kangmai.

(iii) In August 2022, the Group entered into an investment agreement in which the Group acquired 36.17% equity interest of Eye Tech Care ("ETC") for a consideration of EUR34,000,000 (approximately equivalent to RMB233,713,000) and the investment was accounted for as an investment in an associate using the equity method. Included in the cost of investment in ETC as at 31 December 2023, there is a goodwill of approximately RMB192,693,000 (2022: RMB180,346,000).

(vi) On 20 October 2023, Rxilient Biohub Pte. Ltd ("Rxilient Biohub"), originally a wholly-owned subsidiary of the Group, entered into a share subscription agreement with its shareholders, pursuant to which the registered capital of Rxilient Biohub was increased from US$200,000 to US$30,000,000, and upon the completion of the subscription, the Group owns 45.00% of the enlarged registered capital of Rxilient Biohub, and therefore, the investment in Rxilient Biohub was accounted for as an investment in an associate using the equity method. On 20 December 2023, Rxilient Biohub was renamed as PharmaGend Global Medical Services Pte. Ltd.

Summarised financial information of associates

Summarised financial information in respect of each of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs. All of these associates are accounted for using the equity method in these consolidated financial statements.

17. INTERESTS IN ASSOCIATES/A JOINT VENTURE - continued

(a) Interests in associates - continued

Summarised financial information of associates - continued

Tibet Pharmaceutical

	31.12.2023 RMB'000	31.12.2022 RMB'000
Current assets	3,402,862	2,712,114
Non-current assets	1,184,495	1,387,298
Current liabilities	(1,184,470)	(1,026,205)
Non-current liabilities	(29,266)	(42,436)

	2023 RMB'000	2022 RMB'000
Revenue	3,134,328	2,554,609
Profit for the year	800,914	375,277
Other comprehensive income for the year	18,236	94,398
Total comprehensive income for the year	819,150	469,675
Dividends received from the associate during the year	180,421	31,305

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

	31.12.2023 RMB'000	31.12.2022 RMB'000
Net assets of Tibet Pharmaceutical	3,373,621	3,030,771
Non-controlling interests	(29,032)	(19,031)
	3,344,589	3,011,740
Proportion of the Group's ownership interest in Tibet Pharmaceutical	37.36%	37.36%
	1,249,538	1,125,186
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	(8,989)	(6,610)
Carrying amount of the Group's interest in Tibet Pharmaceutical	2,919,676	2,797,703

17. INTERESTS IN ASSOCIATES/A JOINT VENTURE - continued

(a) Interests in associates - continued

Summarised financial information of associates - continued

ETC

	31.12.2023 RMB'000	31.12.2022 RMB'000
Current assets	128,844	156,237
Non-current assets	7,718	9,494
Current liabilities	(28,835)	(30,857)
Non-current liabilities	(19,302)	(24,792)

	2023 RMB'000	For the period from 12 August 2022 (date of acquisition) to 31 December 2022 RMB'000
Revenue	1,604	907
Loss for the year/period	(39,351)	(9,943)
Other comprehensive expense for the year/period	(153)	(761)
Total comprehensive loss for the year/period	(39,504)	(10,704)

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

	31.12.2023 RMB'000	31.12.2022 RMB'000
Net assets of ETC	88,425	110,082
Proportion of the Group's ownership interest in ETC	36.17%	36.17%
	31,983	39,817
Goodwill	168,075	168,075
Exchange adjustment of Goodwill	24,618	12,271
Effect of fair value adjustment at acquisition	24,841	24,841
Other adjustments	(2,284)	2,111
Carrying amount of the Group's interest in ETC	247,233	247,115

17. INTERESTS IN ASSOCIATES/A JOINT VENTURE - continued

(a) Interests in associates - continued

Summarised financial information of associates – continued

Aggregate information of associates that are nor individually material

	31.12.2023 RMB'000	31.12.2022 RMB'000
The Group's share of losses and total comprehensive Expense for the year	(7,622)	(65,798)
Unrecognised shares of losses of associates for the year	-	(11,397)
Cumulative unrecognised share of losses of associates	-	(11,397)

(b) Interest in a joint venture

	2023 RMB'000
Cost of investment in a joint venture (note 43)	220,161
Share of post-acquisition profits and other comprehension income	2,888
Impairment loss on interest in a joint venture	(44,000)
	179,049

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of joint venture	Place of establishment/ incorporation	Principal place of business	ownership interest /voting rights held by the Group 2023	2022	Principal activities
Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Xili Pharmaceutical") (Note)	Hebei	Hebei	52.01%	52.01%	Production of medicines and sale of drugs

Note: In February 2023, the Group entered into a shareholder agreement with the other shareholders of Xili Pharmaceutical, which was a subsidiary of the Group at the time, pursuant to which the Articles of Association of Xili Pharmaceutical was amended in which unanimous consent from the board of directors of Xili Pharmaceutical is required for all operating decisions. Accordingly, the directors of the Company concluded that the control over Xili Pharmaceutical was given up on that date. The investment on Xili Pharmaceutical was considered deemed disposed and was accounted for as an investment in a joint venture using the equity method afterward. Further details of the deemed disposal of Xili Pharmaceutical are set out in note 43.

17. INTERESTS IN ASSOCIATES/A JOINT VENTURE - continued

(b) Interest in a joint venture - continued

Summarised financial information of a joint venture

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

The joint venture is accounted for using the equity method in these consolidated financial statements.

Xili Pharmaceutical

	31.12.2023 RMB'000
Current assets	109,874
Non-current assets	76,422
Current liabilities	(40,165)
Non-current liabilities	(15,343)

The above amounts of assets and liabilities include the following:

	31.12.2023 RMB'000
Cash and cash equivalents	9,442
Current financial liabilities (excluding trade and other payables and provisions)	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(15,343)

17. INTERESTS IN ASSOCIATES/A JOINT VENTURE - continued

(b) Interest in a joint venture - continued

Summarised financial information of a joint venture - continued

Xili Pharmaceutical - continued

	For the period from February 2023 (date of disposal) to 31 December 2023 RMB'000
Revenue	111,972
Profit for the period	5,552
Total comprehensive income for the period	5,552
Dividends received from the joint venture during the period	-
The above profit for the period includes the following:	
Depreciation and amortisation	5,852
Interest income	94
Interest expense	-
Income tax expense	(1,850)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31.12.2023 RMB'000
Net assets of Xili Pharmaceutical	130,788
Proportion of the Group's ownership interest in Xili Pharmaceutical	52.01%
	68,023
Goodwill	111,026
Carrying amount of the Group's interest in Xili Pharmaceutical	179,049

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 2022	2,213,429	359,137	872,656	90	3,445,312
Transfer from deposits paid for acquisition of intangible assets	9,650	-	-	-	9,650
Acquired on acquisition of subsidiaries (note 42)	5,248	-	-	1,597	6,845
At 31 December 2022	2,228,327	359,137	872,656	1,687	3,461,807
Transfer from deposits paid for acquisition of intangible assets	358,936	-	18,787	-	377,723
Additions	2,830	-	3,774	-	6,604
Deemed disposal of a subsidiary (note 43)	-	(114,489)	-	-	(114,489)
At 31 December 2023	2,590,093	244,648	895,217	1,687	3,731,645
AMORTISATION					
At 1 January 2022	658,706	170,790	317,738	53	1,147,287
Charge for the year	113,905	10,534	41,228	102	165,769
At 31 December 2022	772,611	181,324	358,966	155	1,313,056
Charge for the year	116,562	5,184	41,582	176	163,504
Eliminated on deemed disposal of a subsidiary (note 43)	-	(51,360)	-	-	(51,360)
At 31 December 2023	889,173	135,148	400,548	331	1,425,200
IMPAIRMENT LOSS					
At 1 January 2022 and 31 December 2022	24,730	57,598	-	-	82,328
Recognised in the year	8,025	-	-	-	8,025
At 31 December 2023	32,755	57,598	-	-	90,353
CARRYING VALUES					
At 31 December 2023	1,668,165	51,902	494,669	1,356	2,216,092
At 31 December 2022	1,430,986	120,215	513,690	1,532	2,066,423

18. INTANGIBLE ASSETS - continued

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.

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 the "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 the Three Products was relatively weak and the actual sales of the Three Products was lower than previously expected, there was an impairment indicator. Management performed an impairment assessment by estimating the recoverable amount of the Three Products. The recoverable amount of the 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 the Three Products as the actual sales of the Three Products was lower than previously expected. Management performed an impairment assessment by estimating the recoverable amount of Three Products. The recoverable amount of the 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 2023 and 2022, management reviews the performance of the 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 2023 and 2022, 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 2023, the carrying amount of the exclusive distribution right was approximately RMB1,234,316,000 (2022: RMB1,335,766,000).

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 2023 and 2022.

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

(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.

18. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(iv) - continued

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 2023, the carrying amount was approximately RMB61,081,000 (2022: RMB79,704,000).

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

(v) On 27 June 2019, the Group entered into an exclusive license agreement with Sun Pharmaceutical Industrial Ltd., an independent third party, pursuant to which Sun Pharmaceutical Industrial Ltd. granted an exclusive license to the Group for the commercialisation of Tildrakizumab Injection in the PRC, at a consideration of US$32,000,000 (equivalent to approximately RMB221,687,000). During the year ended 31 December 2023, regulatory approval of Tildrakizumab Injection has been obtained from the National Medical Products Administration of the People's Republic of China ("NMPA") and the related deposits paid for acquisition of the exclusive distribution right has been transferred to intangible assets accordingly. As at 31 December 2023, the carrying amount of the exclusive distribution right under intangible assets was of approximately RMB295,150,000 (2022: nil).

(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 2023 and 2022, 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 2023 and 2022, 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 2023, the carrying amount of the exclusive distribution right and patent right of XiDaKang were approximately RMB1,298,000 and RMB1,018,000, respectively (2022: RMB1,597,000 and RMB1,248,000).

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

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly held 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe Hunan, a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Kangzhe Guangming over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable 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%.

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(ii) - continued

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 2023, the carrying amount of the patent right was approximately RMB10,929,000 (2022: RMB13,451,000).

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 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 2023, the carrying amount of the patent right of GanFuLe was approximately RMB1,249,000 (2022: RMB2,611,000).

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

(iv) The Group acquired 52.01% of equity interest in 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.

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(iv) - continued

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

In February 2023, the patent right of DanShenTong was disposed through the deemed disposal of Xili Pharmaceutical. As at 31 December 2022, the carrying amount was approximately RMB64,199,000. Please refer to note 43 for the details of deemed disposal of Xili Pharmaceutical.

(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 2023, the related patent is not yet available for use and are not amortised. 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 2023, the carrying amount of the product right was approximately RMB40,071,000 (2022: RMB43,887,000).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 2023, the carrying amount was approximately RMB89,287,000 (2022: RMB97,404,000).

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 2023, the carrying amount was approximately RMB289,026,000 (2022: RMB314,717,000).

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 2023, the carrying amount was approximately RMB54,075,000 (2022: RMB57,680,000).

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

19. GOODWILL

	RMB'000
COST	
At 1 January 2022	1,881,179
Arising on acquisition of subsidiaries (note 42)	34,814
At 31 December 2022	1,915,993
Deemed disposal of a subsidiary (note 43)	(198,090)
At 31 December 2023	1,717,903
IMPAIRMENT LOSS	
At 1 January 2022	190,000
Impairment loss recognised during the year	60,000
At 31 December 2022	250,000
Impairment loss recognised during the year	-
Eliminated on deemed disposal of a subsidiary (note 43)	(80,000)
At 31 December 2023	170,000
CARRYING VALUES	
At 31 December 2023	1,547,903
At 31 December 2022	1,665,993

For the purposes of impairment testing, the entire amount of goodwill has been allocated to eight (2022: nine) CGUs, representing eight (2022: nine) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Tibet Kangzhe Development, Luqa, Carnation, Xuli and Heling (as defined in note 42) (2022: Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical, Tibet Kangzhe Development, Luqa, Carnation, Xuli and Heling.). 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 and Xuli are engaged in sales of medical aesthetic products. Carnation is engaged in research and development and manufacture of energy-based medical aesthetic devices. Heling is engaged in research, development and production of skincare products. The carrying amounts of goodwill (net of accumulated impairment losses) allocated to these units are as follows:

	2023 RMB'000	2022 RMB'000
Tianjin Kangzhe	990,333	990,333
Kangzhe Hunan	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	-	118,090
Tibet Kangzhe Development	1,854	1,854
Luqa	460,002	460,002
Carnation	36,642	36,642
Xuli	30,576	30,576
Heling	4,238	4,238
	1,547,903	1,665,993

19. GOODWILL - continued

The recoverable amounts of Tianjin Kangzhe, Kangzhe Hunan, Sky United, Tibet Kangzhe Development, Luqa, Carnation, Xuli and Heling 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 2023, 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 13.6% (2022: 13.0%). Tianjin Kangzhe's cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2022: 3%). This growth rate is based on management's best estimate and past experience on the industry.

During the year ended 31 December 2023 and 2022, no impairment loss was recognised.

Kangzhe Hunan

At 31 December 2023, 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 13.0% (2022: 12.9%). Kangzhe Hunan's cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2022: 3%). This growth rate is based on management's best estimate and past experience on the industry.

During the years ended 31 December 2023 and 2022, no impairment loss was recognised.

Xili Pharmaceutical

As mentioned on note 43, in February 2023, the Group had a deem disposal of Xili Pharmaceutical, which became a joint venture of the Group with effect from 1 March 2023.

At 31 December 2022, 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 14.9%. Xili Pharmaceutical's cash flows beyond the five-year period are extrapolated using a growth rate of 3%. This growth rate is based on management's best estimate and past experience on the industry.

19. GOODWILL - continued

Luqa

At 31 December 2023, 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 14.6% (2022: 15.2%). Luqa's cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2022: 3%). This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2023 and 2022, no impairment loss was recognised.

Carnation

At 31 December 2023, 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 23.8% (2022: 25.2%). Carnation's cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2022: 3%). This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2023 and 2022, no impairment loss was recognised.

Xuli

At 31 December 2023, 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% (2022: 14.0%). Xuli's cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2022: 3%). This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2023 and 2022, no impairment loss was recognised.

The goodwill of Sky United, Tibet Kangzhe Development and Heling was immaterial as at the end of both reporting periods. No impairment loss was recognised for both years.

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

(a) Financial assets at FVTPL

	2023 RMB'000	2022 RMB'000
Listed investments:		
Equity securities listed on the Hong Kong Stock Exchange (the "HKEX") (Note i)	2,602	-
Unlisted investments:		
Capital funds (Note ii)	843,190	734,102
Equity securities (Note iii)	986,466	757,234
	1,829,656	1,491,336
Total	1,832,258	1,491,336

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

(a) Financial assets at FVTPL - continued

Notes:

(i) The listed equity investment represents ordinary shares of one entity listed on the HKEX. The investment is held for trading and its fair value is based on the quoted market price. During the year ended 31 December 2023, the Group invested approximately RMB4,784,000 into the listed equity investment. As at 31 December 2023, the fair values of the equity investments amounted to RMB2,602,000, and a loss on change in fair value of RMB2,182,000 has been recognised in profit and loss.

(ii) During the year ended 31 December 2023, the Group further invested approximately RMB145,505,000 (2022: RMB301,178,000) into various capital funds. During the year ended 31 December 2023, the Group disposed investment in a capital fund amounted to RMB20,343,000. As at 31 December 2023, the fair values of these capital funds amounted to RMB843,190,000 (2022: RMB734,102,000), and a loss on change in fair value of RMB16,074,000 (2022: a gain of RMB50,100,000) 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 2023, the fair values of these capital funds were RMB11,331,000 (2022: RMB8,693,000)

(iii) During the year ended 31 December 2023, the Group further invested approximately RMB227,726,000 (2022: RMB62,460,000) in various unlisted equity investments. As at 31 December 2023, the fair values of the equity investments amounted to RMB986,466,000 (2022: RMB757,234,000), and a gain on change in fair value of RMB1,506,000 (2022: a gain of RMB100,334,000) 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 2023, the fair value of the unlisted equity investment was RMB3,380,000 (2022: RMB3,138,000).

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

	2023 RMB'000	2022 RMB'000
Listed investments:		
Equity securities listed on		
London Stock Exchange Plc (the "LSE") (Note i)	21,830	16,493
Euronext N.V. (the "ENV") (Note ii)	16,707	38,416
New York Stock Exchange (the "NYSE") (Note iii)	-	9,092
National Association of Securities Dealers Automated Quotations (the "NASDAQ") (Note i)	12	-
	38,549	64,001
Unlisted investments:		
Equity securities (Note iv)	125,344	233,047
Total	163,893	297,048

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.

(i) The listed equity investment represents ordinary shares of the following one (2022: two) entity listed on LSE. The investments are denominated in Great British Pound ("GBP") and the fair values are based on the quoted market price.

(a) Biodexa Pharmaceuticals PLC (formerly known as “Midatech Pharma Plc”) (“Biodexa”) - 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 GBP 3,000,000 (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 2023, the fair value of Destiny amounted to RMB21,830,000 (2022: RMB15,490,000), and a gain on change in fair value of RMB6,340,000 (2022: a fair value loss of RMB15,681,000) has been recognised in other comprehensive income.

As at 31 December 2023, the fair value of Biodexa amounted to RMB12,000 (2022: RMB1,003,000), and a loss on change in fair value of RMB991,000 (2022: a fair value loss of RMB7,156,000) has been recognised in other comprehensive income. During the year ended 31 December 2023, Biodexa transferred its listing from LSE to NASDAQ.

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

(i) - continued

As at 31 December 2023 and 2022, A&B also had equity interest in Biodexa and Destiny.

(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 EUR4,000,000 (equivalent to RMB30,607,000) in Acticor during the year ended 31 December 2018. The Group further invested EUR 1,000,000 (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 2023, the fair value of the equity investment amounted to RMB16,707,000 (2022: RMB38,416,000), and a loss on change in fair value of RMB21,709,000 (2022: a fair value gain of RMB14,177,000) has been recognised in other comprehensive income.

As at 31 December 2023 and 2022, A&B also had equity interest in Acticor.

(iii) The listed equity investment represents ordinary shares of Gelesis Holdings, Inc. ("Gelesis"). Gelesis became listed on NYSE on 18 January 2022. The Group first invested approximately US$20,000,000 (equivalent to RMB142,633,000) in Gelesis during the year ended 31 December 2020. The Group further invested US$15,000,000 (equivalent to RMB95,615,000) in Gelesis during the year ended 31 December 2022. During the year ended 31 December 2023, Gelesis had delisted and the fair value of the equity investment amounting to nil as at 31 December 2023.

As at 31 December 2023, the fair value of the equity investments amounted to nil (2022: RMB9,092,000), and a loss on change in fair value of RMB9,092,000 (2022: a loss of RMB200,780,000) has been recognised in other comprehensive income.

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

As at 31 December 2023, the fair values of the equity investments amounted to RMB125,344,000 (2022: RMB233,047,000). The fair values of the above unlisted equity investments were performed by a professional independent valuer. During the years ended 31 December 2023, a loss on change in fair value of RMB107,703,000 (2022: a gain of RMB13,243,000) has been recognised in other comprehensive income.

A&B also had equity interest in certain unlisted equity investments invested by the Group.

21. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	31,497	9,739
Work in progress	8,888	32,243
Finished goods	597,251	435,224
	637,636	477,206

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2023 RMB'000	2022 RMB'000
Trade receivables	1,156,770	1,451,678
Less: Allowance for credit losses	(10,032)	(9,643)
	1,146,738	1,442,035
Bills receivables	180,960	269,579
Purchase prepayments	148,939	211,746
Other receivables and deposits	91,950	120,584
	1,568,587	2,043,944

As at 1 January 2022, trade receivables from contracts with customers amounted to RMB1,395,789,000.

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

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

	2023 RMB'000	2022 RMB'000
Trade receivables		
0 - 90 days	1,127,469	1,363,828
91 - 365 days	19,269	57,802
Over 365 days	-	20,405
	1,146,738	1,442,035
Bill receivables		
0 - 90 days	105,719	185,133
91 - 120 days	19,380	31,241
121 - 180 days	55,861	53,205
	180,960	269,579

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS - continued

As at 31 December 2023, total bills receivables amounting to RMB180,960,000 (2022: RMB269,579,000) 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 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB18,039,000 (2022: RMB95,554,000) which are past due at the reporting date. RMB4,588,000 (2022: RMB30,622,000) was more than 90 days past due 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 2023 and 2022 are set out in note 36.

23. DEPOSITS PAID FOR ACQUISITION OF INTANGIBLE ASSETS

	2023 RMB'000	2022 RMB'000
Deposits paid for acquisition of intangible assets paid to:		
Sun Pharmaceutical Industrial Ltd.	172,669	394,356
Incyte	215,307	215,307
Gelesis Inc. (Note)	-	140,693
Wuxi App Tec (Shanghai) Co. Ltd.	157,169	77,000
Medac Gesellschaft Fur Klinische Speziallpraparate M.B.H	-	40,824
Cosmo Technologies Ltd.	54,158	32,625
Jiangxi Shimei Pharmaceutical Co., Ltd.	45,000	45,000
YZY Biopharma, Ltd.	40,874	33,761
Cadila Healthcare Limited	27,904	27,904
Shandong Innovative Drug Research and Development Co., Ltd.	54,000	36,000
Can-Fite BioPharma	13,446	13,446
Jiangsu Xihong Biopharma Co., Ltd	20,000	-
Almirall, S.A	14,502	-
NeuroDwan Pharmaceutical Co. Ltd,	28,302	-
Others	170,064	228,499
	1,013,395	1,285,415

These deposits were paid to independent third parties not connected with the Group for certain exclusive distribution or product rights of medical products to be approved by relevant regulatory bodies for the sales in specific territories. During the year ended 31 December 2023, the Group made approximately RMB269,165,000 (2022: RMB506,585,000) additional deposits in various medical products. During the year ended 31 December 2023, amount of RMB377,723,000 (2022: RMB9,650,000) of certain exclusive distribution or product rights have been transferred to intangible assets when regulatory approvals of the products have been obtained. During the year ended 31 December 2023, an impairment loss of RMB163,462,000 (2022: RMB2,003,000) was recognised in profit or loss.

Note: During the year ended 31 December 2023, an impairment loss of RMB140,693,000 (2022: nil) was recognised in profit or loss as Gelesis Inc. has filed a voluntary petition for relief in the United States Bankruptcy Court.

24. AMOUNTS DUE FROM ASSOCIATES

As at 31 December 2023, the balance of approximately RMB30,000,000 (2022: RMB30,000,000) was non-trade nature and non-interest bearing, represented deposit to Tibet Pharmaceutical for exclusive distribution right.

As at 31 December 2023, the balance of approximately RMB408,167,000 (2022: RMB328,072,000) was trade nature and non-interest bearing, represented promotion income receivables from Tibet Pharmaceutical and associates. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 31 December 2023 was aged within three months (2022: within three months) based on the invoice date.

25. BANK BALANCES AND CASH

Cash and cash equivalents/pledged/restricted bank deposits

Cash and cash equivalents include short term deposits for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 0.25% to 5.45% (2022: 0.30% to 3.40%). Included in bank balances mainly are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2023 RMB'000	2022 RMB'000
Euro ("EUR")	516,647	26,132
Hong Kong Dollar ("HK$")	18,833	47,505
United States Dollar ("US$")	1,473,920	194,890

Details of the impairment of bank balances are set out in note 36.

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:

	2023 RMB'000	2022 RMB'000
0 - 90 days	136,568	164,837
91 - 365 days	4,171	11,715
Over 365 days	925	1,457
Trade payables	141,664	178,009
Payroll and welfare payables	178,074	200,360
Other tax payables	21,222	61,318
Accrued promotion expenses	39,177	71,273
Accruals	42,609	34,743
Other payables	14,230	17,491
	436,976	563,194

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

27. LEASE LIABILITIES

	2023 RMB'000	2022 RMB'000
Lease liabilities payable:		
Within one year	15,416	15,804
Within a period of more than one year but not more than two years	7,536	8,601
Within a period of more than two years but not more than five years	9,135	4,890
	32,087	29,295
Less: Amount due for settlement with 12 months shown under current liabilities	(15,416)	(15,804)
Amount due for settlement after 12 months shown under non-current liabilities	16,671	13,491

28. CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Receipts in advance from customers - finished goods	12,733	21,614

As at 1 January 2022, contract liabilities amounted to RMB23,715,000.

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

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	21,614	23,715

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.

29. BANK BORROWINGS

	2023 RMB'000	2022 RMB'000
Bank loans	1,269,650	1,783,337
Analysed as:		
Unsecured	1,269,650	1,783,337

	2023 RMB'000	2022 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	1,269,650	1,783,337
	1,269,650	1,783,337
Less: Amounts due within one year shown under current liabilities	(1,269,650)	(1,783,337)
Amounts shown under non-current liabilities	-	-

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

29. BANK BORROWINGS - continued

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:

	2023 RMB'000	2022 RMB'000
Variable-rate borrowings		
Denominated in HK$ range from 5.27% to 5.87% per annum as at 31 December 2023 (2022: 4.87% to 5.30%) (Notes a & c)	679,650	1,281,886
Denominated in US$ (ranged from 5.29% to 6.17%) (Notes b & c)	-	501,451
Fixed-rate borrowings		
Denominated in RMB at fixed rate of 2.65% per annum as at 31 December 2023	590,000	-
Total	1,269,650	1,783,337

Notes:

(a) Variable rates range from Hong Kong Interbank Offered Rate ("HIBOR") plus 0.60% as at 31 December 2023 (2022: HIBOR plus 0.52% to HIBOR plus 0.95%).

(b) Variable rates range from London Interbank Offered Rate ("LIBOR") plus 0.70% to LIBOR plus 1.25% as at 31 December 2022.

(c) As at 31 December 2023, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB679,650,000 (2022: RMB1,113,362,000). The principal amount of the variable-rate bank borrowings will be repayable on 13 September 2024 (2022: 24 March 2023, 27 March 2023 and 25 April 2023). Details of the interest rate swaps are disclosed in note 32.

As at 31 December 2023, the Group had unutilised banking facilities of approximately RMB2,550,000 (2022: RMB2,027,858,000).

30. OBLIGATION ARISING FROM PUT OPTIONS

	2023 RMB'000	2022 RMB'000
Obligation arising from put options	-	163,773

As of 31 December 2022, the obligation arising from put options in which the Group could be required to pay the non-controlling shareholders of CMS Skinhealth Investment Limited (formerly known as CMS Aesthetics Investment Limited), an indirect subsidiary of the Company was amounted to RMB163,773,000. During the year ended 31 December 2023, the shares of CMS Skinhealth Investment Limited have been repurchased from the non-controlling shareholders at a consideration of RMB116,300,000.

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 2022	19,831	(31,620)	(63,964)	240	(27,991)	15,027	1,201	(87,276)
Credit (charge) to profit or loss for the year (note 11)	3,247	3,294	-	-	(2,315)	(299)	-	3,927
Charge to other comprehensive income	-	-	-	(892)	-	-	-	(892)
Acquisitions of subsidiaries (note 42)	-	(1,711)	-	-	-	-	-	(1,711)
At 31 December 2022	23,078	(30,037)	(63,964)	(652)	(30,306)	14,728	1,201	(85,952)
Credit (charge) to profit or loss for the year (note 11)	1,966	3,055	-	-	(4,498)	622	-	1,145
Credit to other comprehensive income	-	-	-	652	-	-	-	652
Deemed disposal of a subsidiary (note 43)	-	16,777	-	-	-	(1,199)	-	15,578
At 31 December 2023	25,044	(10,205)	(63,964)	-	(34,804)	14,151	1,201	(68,577)

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

	2023 RMB'000	2022 RMB'000
Deferred tax assets	40,396	39,007
Deferred tax liabilities	(108,973)	(124,959)
	(68,577)	(85,952)

31. DEFERRED TAX - continued

At 31 December 2023, the Group had unused tax losses of approximately RMB310,006,000 (2022: RMB230,012,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB89,682,000 (2022: RMB91,990,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB220,324,000 (2022: RMB138,022,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2023 are tax losses of approximately RMB60,196,000 (2022: RMB44,937,000) 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 2023, tax losses of approximately RMB4,795,000 (2022: RMB907,000) was expired.

As at 31 December 2023, the Group had deductible temporary differences of RMB820,023,000 (2022: RMB823,027,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB100,176,000 (2022: RMB92,312,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB719,847,000 (2022: RMB730,715,000) 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 RMB8,125,080,000 (2022: RMB8,190,285,000) 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

	2023 RMB'000	2022 RMB'000
Current assets:		
Foreign exchange forward contracts	-	33,120
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	-	8,901
	-	42,021
Current liabilities:		
Foreign exchange forward contract with interest rate Swap (2022: foreign exchange forward contract)	(17,227)	(562)

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 2023 and 2022 are set out below:

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Foreign exchange forward contracts - continued

At 31 December 2023

Notional amount	Maturity date	Exchange rate range agreed
HK$750,000,000	13 September 2024	HK$1: RMB0.9280

At 31 December 2022

Notional amount	Maturity date	Exchange rate range agreed
US$32,000,000	20 March 2023	US$1: RMB6.3795 to RMB6.60
US$40,000,000	23 March 2023	US$1: RMB6.69 to RMB7.40
HK$685,000,000	25 April 2023	HK$1: RMB0.845 to RMB0.88
HK$750,000,000	7 September 2023	HK$1: RMB0.8910

During the year ended 31 December 2023, the fair value loss of approximately RMB49,785,000 (2022: the fair value gain of RMB41,889,000) has been recognised in "other gains and losses" line item (see note 7).

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 2023 and 2022 are set out below:

At 31 December 2023

Notional amount (Note)	Liability at carrying amount	Contract date	Maturity date	Receive	Pay
HK$750,000,000	RMB17,227,000	15 September 2023	13 September 2024	HIBOR + 0.60%	3.80%

At 31 December 2022

Notional amount (Note)	Assets at carrying amount	Contract date	Maturity date	Receive	Pay
US$40,000,000	RMB2,373,000	27 March 2020	24 March 2023	LIBOR + 0.7%	1.74%
US$32,000,000	RMB2,224,000	27 March 2020	27 March 2023	LIBOR + 1.25%	1.89%
HK$685,000,000	RMB4,304,000	25 April 2022	25 April 2023	HIBOR + 0.52%	2.35%

Note: The notional amount will be expired on 13 September 2024 (2022: 24 March 2023, 27 March 2023 and 25 April 2023), which are the same as corresponding bank borrowings.

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Interest rate swaps - continued

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. During the year ended 31 December 2023, the fair value loss of approximately RMB8,902,000 (2022: fair value gain of approximately RMB10,861,000), income tax of approximately RMB652,000 (2022: RMB892,000), resulting in a net amount of approximately RMB8,250,000 (2022: RMB9,969,000) 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 2022, 31 December 2022 and 31 December 2023	20,000,000	765,218
Issued and fully paid		
At 1 January 2022	2,457,444	84,177
Shares repurchased and cancelled (Note)	(5,455)	(186)
At 31 December 2022 and 2023	2,451,989	83,991

Note: During the year ended 31 December 2022, 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$
March 2022	130,000	11.34	11.04	1,447,520
April 2022	3,600,000	11.90	10.46	40,227,820
May 2022	1,000,000	11.16	10.64	10,976,200
September 2022	545,000	9.84	9.22	5,147,640
October 2022	180,000	9.08	8.90	1,616,220
Total	5,455,000			59,415,400

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 2023 and 2022.

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.

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

	2023 RMB'000	2022 RMB'000
Financial assets		
Derivative financial instruments		
- foreign exchange forward contracts	-	33,120
Derivative instruments under hedge accounting		
(cash flow hedges-interest rate swaps)	-	8,901
Financial assets at amortised cost	6,204,818	6,636,814
Equity instruments at FVTOCI	163,893	297,048
Financial assets at FVTPL	1,832,258	1,491,336
Financial liabilities		
At amortised cost	(1,604,618)	(2,344,879)
Derivative financial instruments		
- foreign exchange forward contracts	(17,227)	(562)

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, amounts due from associates, derivative financial instruments, bank balances and cash, trade and other payables, lease liabilities, bank borrowings, obligation arising from put options and deferred consideration payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk and other price risk), credit risk, 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.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to lease liabilities (see note 27) and obligation arising from put options. 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 HK$ and 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 and HIBOR 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 RMB146,475,000 was earned (2022: RMB105,515,000) from financial assets that are measured at amortised cost (including cash and cash equivalents) for the year ended 31 December 2023.

Interest expense of RMB46,251,000 was incurred (2022: RMB49,086,000) on financial liabilities not measured at fair value through profit or loss that are measured at amortised cost for the year ended 31 December 2023.

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.

The sensitivity analyses below have been determined based on the exposure to interest rates, including derivatives which are designated as effective hedging instruments 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 (2022: 50 basis point) increase or decrease in variable-rate bank borrowings and interest rate swaps designed to hedge cash flow interest rate risk 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.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Sensitivity analysis - continued

If interest rates had been 50 basis points (2022: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2023 would decrease/increase by RMB2,549,000 (2022: RMB4,175,000). This is mainly attributable to the Group's exposure to interest rates on certain of 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 56% (2022: 53%) 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	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
US$	2,368,814	1,141,327	3,543	503,832
EUR	531,007	40,827	17,530	7,268
HK$	28,815	63,196	683,412	1,281,886

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$, EUR and HK$. The following table details the Group's sensitivity to a 5% (2022: 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% (2022: 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% (2022: 5%) against the relevant foreign currencies. If there is a 5% (2022: 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:

	2023 RMB'000	2022 RMB'000
RMB (as functional currency of the relevant group entities) against US$	(88,698)	(23,906)
RMB (as functional currency of the relevant group entities) against EUR	(19,255)	(1,258)
RMB (as functional currency of the relevant group entities) against HK$	24,547	45,701

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.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

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, ENV and NYSE.

Sensitivity analysis

The following details the Group's sensitivity to a 10% (2022: 10%) increase and decrease in the quoted market price of the equity securities. 10% (2022: 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% (2022:10%) higher/lower in the quoted market price of the equity securities, the other comprehensive income would be increased/decreased by RMB3,855,000 (2022: RMB6,400,000).

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 2023 and 2022.

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, amounts due from associates and loan receivables. 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.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

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.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which almost accounted for 100% (2022: 100%) of the total trade receivables as at 31 December 2023. 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 RMB82,000 (2022: RMB45,000) is recognised for the year ended 31 December 2023. 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.

Amounts due from associates

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 associates have been subsequently settled. For the years ended 31 December 2023 and 2022, the Group assessed the ECL for amounts due from associates 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 is no significant increase in credit risk at the reporting date of these amounts since initial recognition. During the year ended 31 December 2023, impairment loss of RMB6,713,000 (2022: nil) was recognised.

Loan receivable

The Group has a policy for assessing the impairment on loans receivables on individual basis. These debtors include a supplier of the Group and an entity in which the Group has invested in its equity interest and accounted for as equity instrument at fair value through other comprehensive income. The ECL rates are estimated based on the credit quality classification and forward-looking information, including but not limited to the financial status of each borrower. During the year ended 31 December 2023, impairment loss of RMB35,414,000 (2022: nil) was recognised.

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	2023 Gross carrying amount		2022 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost							
Trade receivables	22	Note 1	Lifetime ECL - not credit-impairment Provision matrix	1,150,397		1,445,612	
		Loss	Credit-impaired	6,373	1,156,770	6,066	1,451,678
Bills receivables (Note 2)	22	Low risk	12m ECL	180,960		269,579	
Amounts due from associates (Notes 2 and 3)	24	Low risk	12m ECL	30,000		30,000	
			Lifetime ECL - Not credit-impaired	408,167	438,167	328,072	358,072
Bank balances (Note 2)	25	Low risk	12m ECL	4,311,058		4,376,376	
Other receivables and deposits (Note 2)	22	Low risk	12m ECL	98,663		120,584	
Loan receivable (Note 2)		Low risk	12m ECL	35,945		70,168	
		Loss	Credit-impaired	35,414	71,359	-	70,168

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 2023 and 2022 within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amount of RMB6,373,000 as at 31 December 2023 (2022: RMB6,066,000) 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

Internal credit rating	2023 Average loss rate	2023 Trade receivables RMB'000	2022 Average loss rate	2022 Trade receivables RMB'000
Normal risk	0.3%	1,135,568	0.2%	1,391,932
Doubtful	3.3%	14,829	2.7%	53,680
		1,150,397		1,445,612

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 2023, the Group provided RMB82,000 (2022: RMB45,000) impairment allowance for trade receivables based on provision matrix. Impairment allowance of RMB10,514,000 (2022: RMB65,000) 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 2022	3,532	6,001	9,533
Impairment losses recognised	45	65	110
As at 31 December 2022	3,577	6,066	9,643
Impairment losses recognised	82	10,514	10,596
Write-offs	-	(10,207)	(10,207)
As at 31 December 2023	3,659	6,373	10,032

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, amounts due from associates and loan receivable 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 amounts due from associates 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. 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.

The Group rebuts the presumption of default under ECL for trade receivables over 90 days past due based on the strong financial position with good repayment records of those customers and continuous business relationship with the Group.

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 2023, the Group has available unutilised banking facilities of approximately RMB2,550,000 (2022: RMB2,027,858,000) 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 2023
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2023					
Non-derivative financial liabilities					
Trade and other payables	-	333,968	-	333,968	333,968
Deferred consideration payables	10.00	1,000	-	1,000	1,000
Variable-rate bank borrowings	3.80	705,477	-	705,477	679,650
Fixed-rate bank borrowings	2.65	605,635	-	605,635	590,000
Lease liabilities	4.75	16,736	17,676	34,412	32,087
		1,662,816	17,676	1,680,492	1,636,705
Derivative financial liabilities					
Foreign exchange forward contracts		17,227	-	17,227	17,227

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 2022
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2022					
Non-derivative financial liabilities					
Trade and other payables	-	395,860	-	395,860	395,860
Deferred consideration payables	10.00	1,000	1,000	2,000	1,909
Variable-rate bank borrowings	2.60	1,806,270	-	1,806,270	1,783,337
Obligation arising from put options	8.00	-	175,133	175,133	163,773
Lease liabilities	4.75	15,514	15,893	31,407	29,295
		2,218,644	192,026	2,410,670	2,374,174
Derivative financial liabilities					
Foreign exchange forward contracts		562	-	562	562

Interest rate benchmark reform

As listed in note 29, one of the Group's HIBOR 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.

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. The Group's bank loans linked to HIBOR will continue till maturity and hence, not subject to transition.

(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

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.

36. FINANCIAL INSTRUMENTS - continued

Interest rate benchmark reform - continued

(i) Risks arising from the interest rate benchmark reform - continued

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.

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 2023. The amounts of liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

36. FINANCIAL INSTRUMENTS - continued

Interest rate benchmark reform - continued

(ii) Progress towards implementation of alternative benchmark interest rates - continued

Financial instruments prior to transition	Maturing in	Carrying amounts/ notional amounts	Hedge accounting	Transition progress for financial instruments
		RMB$'000		
Bank loans linked to HIBOR	13 September 2024	679,650	Designated in cash flow hedge	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).

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	31/12/2023	31/12/2022			
1) Interest rate swaps classified as derivative financial instruments	Nil	Assets - RMB8,901,000	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

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
	31/12/2023	31/12/2022			
2) Foreign exchange forward contracts classified as derivative financial instruments	Liabilities - RMB17,227,000	Assets -RMB33,120,000 Liabilities - RMB562,000	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, ENV, NYSE and NASDAQ- RMB38,549,000	Listed equity securities on the LSE, ENV and NYSE- RMB64,001,000	Level 1	Quoted bid prices in an active market	Nil
4) Equity instruments at FVTOCI - unlisted equity securities	Unlisted equity investments - RMB125,344,000	Unlisted equity investments - RMB233,047,000	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
5) Financial asset at FVTPL - listed equity securities	Listed equity securities on the HKEX - RMB2,602,000	Nil	Level 1	Quoted bid prices in an active market.	Nil
6) Financial asset at FVTPL - capital funds	Assets - RMB843,190,000	Assets - RMB734,102,000	Level 3	Direct comparison – reference to market evidence of recent transaction prices of the underlying investments	Recent transaction prices of underlying investments
7) Financial asset at FVTPL - unlisted equity securities	Assets - RMB510,536,000	Assets - RMB445,935,000	Level 2	Recent Transaction method, quoted bid prices in an inactive market	Nil
8) Financial assets at FVTPL - unlisted equity securities	Assets - RMB475,930,000	Assets - RMB311,299,000	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

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(ii) Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI	Financial assets at FVTPL	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2022	44,638	639,132	683,770
Purchases	-	332,077	332,077
Disposal	(2,841)	-	(2,841)
Transfers into level 2	-	(115,725)	(115,725)
Transfers into level 3 from level 2	191,076	117,387	308,463
Total gains			
- in profit	-	72,530	72,530
- in other comprehensive income	174	-	174
As at 31 December 2022	233,047	1,045,401	1,278,448
Purchases	-	145,505	145,505
Disposal	-	(20,343)	(20,343)
Transfers into level 3 from level 2	-	131,879	131,879
Total gains			
- in profit	-	16,678	16,678
- in other comprehensive income	(107,703)	-	(107,703)
As at 31 December 2023	125,344	1,319,120	1,444,464

(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.

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 RMB'000 (note 29)	Deferred consideration payables RMB'000	Dividend payables RMB'000 (note 13)	Lease liabilities RMB'000 (note 27)	Obligation rising from put options RMB'000	Total RMB'000
At 1 January 2022	1,677,573	2,736	-	34,732	152,413	1,867,454
Financing cash flows	(88,435)	(1,000)	(1,276,239)	(18,948)	-	(1,384,622)
Acquisition of a subsidiary	3,000	-	-	-	-	3,000
Dividends declared	-	-	1,276,239	-	-	1,276,239
Finance costs	35,455	173	-	2,098	11,360	49,086
Net foreign exchange loss	155,744	-	-	-	-	155,744
Commencement of new leases	-	-	-	11,413	-	11,413
At 31 December 2022	1,783,337	1,909	-	29,295	163,773	1,978,314
Financing cash flows	(553,190)	(1,000)	(1,360,363)	(20,285)	(116,300)	(2,051,138)
Dividends declared	-	-	1,360,363	-	-	1,360,363
Finance costs	42,997	91	-	2,216	947	46,251
Net foreign exchange gain	(3,494)	-	-	-	-	(3,494)
Commencement of new leases	-	-	-	20,861	-	20,861
Repurchase shares from non-controlling interest	-	-	-	-	(48,420)	(48,420)
At 31 December 2023	1,269,650	1,000	-	32,087	-	1,302,737

38. CAPITAL COMMITMENTS

	2023 RMB'000	2022 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	-	576
- financial assets at FVTPL	669,080	773,150
- interests in associate	37,466	53,883

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.

39. RELATED PARTY TRANSACTIONS - continued

(a) The Group entered into the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2023 RMB'000	2022 RMB'000
Tibet Pharmaceutical	Associate	Promotion income	1,618,832	1,316,329
Tibet Pharmaceutical	Associate	Purchase of goods	36	611
ETC	Associate	Purchase of goods	8,131	-
ETC	Associate	Promotion income	13,183	-
Shenzhen Mediportal Health Medical Internet Limited	Related party	Service fee	5,173	-
A&B (HK) Company Limited	Related party	Royalty expenses	352	-

(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 2022 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 had terminated the development of CMS024. The Group has not paid any fee to Kangzhe R&D during the years ended 31 December 2023 and 2022.

(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 2023 and 2022.

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 2023 and 2022. 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 nano formulation 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 2023 and 2022, 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 2023 and 2022. During the year ended 31 December 2023, the amount of RMB4,090,000 was fully impairment.

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 2023, 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 2023 and 2022.

(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. As at 31 December 2023, the Group and A&B had negotiated and agreed on the terms of the Transaction of NRL-1, the Group has agreed to pay A&B a royalty payment of up to US$0.6 per Unit of NRL-1 imported into or sold in the Territories, and the Group has agreed to pay A&B a royalty payment of 9.0% on the net sales of NRL-1 sold by the Group in the Territories. The Group has accrual amount of RMB352,000 of royalty expense during the year ended 31 December 2023.

(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) and was sold during the year ended 31 December 2022. 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 2023 and 2022.

39. RELATED PARTY TRANSACTIONS - continued

(i) On 29 January 2019, the Group entered into a license, collaboration and distribution agreement with Biodexa. According to the terms of such agreement, the Group will gain exclusive, perpetual, transferable, sub-licensable rights to develop and commercialise Biodexa'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 Biodexa controls and which Biodexa 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 2023 and 2022.

(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 2023 and 2022.

(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.

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 RMB280,021,000 (2022: RMB217,855,000).

41. EMPLOYEE BENEFIT SCHEME

The 2009 Scheme was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think appropriate select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the 2009 Scheme is classified as defined contribution scheme.

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.

41. EMPLOYEE BENEFIT SCHEME - continued

(b) The New KEB Scheme

i. i.The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme, except for the ratio of contribution, which was determined by the audited consolidated financial performance.

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.

(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. No employee benefit expenses were recognised by the Company and the Group for both years.

During the year ended 31 December 2023, the Company recognised an expense of RMB5,160,000 (2022: RMB5,760,000) on the Master Scheme based on the Group's financial performance, in which such amount was recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

42. ACQUISITIONS OF SUBSIDIARIES

For the year ended 31 December 2022

(a) Acquisition of Shanghai Xuli Medical Devices Company Limited ("Xuli")

On 8 December 2021, the Group entered into an equity transfer agreement with independent third parties to acquire 100% equity interest in Xuli from independent third parties at a consideration of RMB43,374,000. Xuli focuses on the field of medical aesthetic products and aiming to provide Chinese beauty-loving people with global high-quality medical aesthetic products, equipment and services. The purpose of the acquisition is to acquire medical aesthetic products rights owned by Xuli for enriching the portfolio of the Group's medical aesthetic products. The acquisition was completed on 21 January 2022 and accounted for as acquisition of business using the acquisition method.

Assets acquired and liabilities recognised at the date of acquisition:

	RMB'000
Property, plant and equipment	26
Intangible assets	5,248
Inventories	12,764
Trade and other receivables	3,782
Bank balances and cash	1,371
Bank borrowings	(3,000)
Trade and other payables	(5,237)
Tax payable	(844)
Deferred tax liabilities	(1,312)
	12,798

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB3,782,000 at the date of acquisition had gross contractual amounts of RMB3,782,000, being the best estimate of the contractual cash flows expected to be collected at acquisition date.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	43,374
Less: fair value of identifiable net assets acquired	(12,798)
Goodwill arising on acquisition	30,576

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2022 - continued

(a) Acquisition of Shanghai Xuli Medical Devices Company Limited ("Xuli") - continued

Goodwill arose in the acquisition of Xuli 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 Xuli. 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 during the year ended 31 December 2022	28,374
Less: cash and cash equivalent balances acquired	(1,371)
	27,003

Impact of acquisition on the results of the Group:

Included in the profit for the year ended 31 December 2022 was loss of RMB13,312,000 attributable to the additional business generated by Xuli. Revenue for the year ended 31 December 2022 included RMB49,976,000 generated from Xuli.

Had the acquisition of Xuli been completed at 1 January 2022, the revenue of the Group for the year ended 31 December 2022 would have been RMB9,152,693,000, and the profit for the period would have been RMB3,274,374,000. 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 at 1 January 2022, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Xuli been acquired at the beginning of the current period, the directors have calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the recognised amounts of property, plant and equipment and intangible assets at the date of acquisition.

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2022 - continued

(b) Acquisition of Heling Medical (Guangzhou) Company Limited ("Heling")

On 19 August 2022, the Group entered into an equity transfer agreement with independent third parties to acquire 60% equity interest in Heling from independent third parties at a consideration of RMB9,000,000. Heling focuses on the research, development and production of dermatology-grade skincare products. The acquisition consists with the Group's strategy to continuously expand into the medical aesthetic field. The acquisition was completed on 19 August 2022 and accounted for as acquisition of business using the acquisition method.

Consideration transferred:

	RMB'000
Cash	2,000
Capital injection	7,000
	9,000

Assets acquired and liabilities recognised at the date of acquisition:

	RMB'000
Intangible assets	1,597
Other receivables	7,000
Bank balances and cash	6
Trade and other payables	(268)
Deferred tax liabilities	(399)
	7,936

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	9,000
Add: non-controlling interest (40% in Heling)	3,174
Less: fair value of identifiable net assets acquired	(7,936)
Goodwill arising on acquisition	4,238

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2022 - continued

(b) Acquisition of Heling Medical (Guangzhou) Company Limited ("Heling") - continued

Goodwill arose in the acquisition of Heling 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 Heling. 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.

Non-controlling interests

The non-controlling interests in Heling recognised at the acquisition dates were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets and amounted to RMB3,174,000.

Net cash outflow arising on acquisition:

	RMB'000
Consideration paid in cash during the year ended 31 December 2022	2,000
Less: cash and cash equivalent balances acquired	(6)
	1,994

Impact of acquisition on the results of the Group:

Included in the loss for the year ended 31 December 2022 was RMB16,000 attributable to the additional business generated by Heling.

Had the acquisition of Heling been completed at 1 January 2022, the revenue of the Group for the year ended 31 December 2022 would have been RMB9,150,357,000, and the profit for the period would have been RMB3,275,933,000. 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 at 1 January 2022, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Heling been acquired at the beginning of the current period, the directors have calculated amortisation of intangible assets acquired on the recognised amounts of intangible assets at the date of acquisition.

43. DEEMED DISPOSAL OF A SUBSIDIARY

For the year ended 31 December 2023

In February 2023, the Group entered into a shareholder agreement with the other shareholders of Xili Pharmaceutical, which was a subsidiary of the Group at the time, pursuant to which the Articles of Association of Xili Pharmaceutical was amended in which unanimous consent from the board of directors of Xili Pharmaceutical is required for all operating decisions. Accordingly, the directors of the Company concluded that the control over Xili Pharmaceutical was given up on that date. The investment on Xili Pharmaceutical was considered deemed disposed and was accounted for as an investment in a joint venture using the equity method afterward. The net assets of Xili Pharmaceutical at the date of deemed disposal were as follows:

Analysis of assets and liabilities over which control was given up:

	RMB'000
Property, plant and equipment (Note 15)	8,974
Right-of-use assets	9,906
Intangible assets (Note 18)	63,129
Goodwill (Note 19)	118,090
Deferred tax assets (Note 31)	1,199
Inventories	42,122
Trade and other receivables	49,257
Cash and cash equivalents	11,155
Trade and other payables	(43,373)
Tax payable	(357)
Deferred tax liabilities (Note 31)	(16,777)
	243,325

Gain on deemed disposal of a subsidiary:

	RMB'000
Net assets disposed of	(243,325)
Non-controlling interests	23,164
Fair value of equity interest retained in Xili Pharmaceutical at the date of deemed disposal (Note 17(b))	220,161
Gain on deemed disposal	-

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31 December 2023 and 2022, 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 2023	31 December 2022	31 December 2023		31 December 2022		
				Directly	Indirectly	Directly	Indirectly	
CMS International	British Virgin Island	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
Xili Pharmaceutical (sino-foreign equity joint venture)	PRC	N/A (note17(b))	RMB11,360,000	-	N/A (note17(b))	-	52.01%	Production of medicines
Tibet Kangzhe Development (wholly-owned domestic enterprise)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
CMS Bridging 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$2,268,542,500	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	DH104,490,000	-	100%	-	100%	Trading of drugs
CMS Bridging DMCC	Dubai	DH261,220,000	DH261,220,000	-	100%	-	100%	Investment holding
CMS Aesthetics DMCC	Dubai	DH50,000	DH50,000	-	100%	-	96%	Trading of drugs
Luqa Ventures Co., Limited	Hong Kong	HK$8,847,825	HK$8,847,825	-	100%	-	96%	Trading of medical aesthetics products
Shanghai Carnation Medical Technology Co., Ltd (wholly foreign-owned enterprise)	PRC	RMB2,842,105	RMB2,842,105	-	64.81%	-	62.2%	Research and development of medical aesthetics devices
Shanghai Kangzhe Aesthetics Pharmaceutical Co., Ltd (wholly foreign-owned enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	96%	Marketing and promotion of drugs
Hainan Kangzhe Aesthetics Technology Co., Ltd (wholly foreign-owned enterprise)	PRC	RMB145,000,000	RMB145,000,000	-	100%	-	96%	Marketing, promotion and sale of drugs

44. 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 2023	31 December 2022	31 December 2023		31 December 2022		
				Directly	Indirectly	Directly	Indirectly	
Shenzhen Kangzhe Zhiyuan Enterprise Management Co., Ltd (wholly foreign-owned enterprise)	PRC	RMB200,000,000	RMB200,000,000	-	100%	-	100%	Investment holding
Hainan Kangzhe Venture Capital Co. Ltd (wholly foreign-owned enterprise)	PRC	RMB787,050,000	RMB520,050,000	-	100%	-	100%	Investment holding
CMS Skinhealth Limited (formley known as CMS Aesthetics Limited)	Hong Kong	HK$1	HK$1	-	100%	-	96%	Trading of drugs
Luqa Business Development Limited	Hong Kong	HK$1	HK$1	-	100%	-	96%	Trading of drugs
Shanghai Xuli Medical Devices Company Limited (wholly-owned domestics enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	96%	Trading of medical aesthetics products
Heling Medical (Guangzhou) Company Limited (wholly-owned domestics enterprise)	PRC	RMB3,000,000	RMB3,000,000	-	60%	-	57.6%	Research and development of skincare products
Hainan Kangzhe Vision Technology Co., Ltd (wholly foreign-owned enterprise)	PRC	RMB 90,000,000	-	-	100%	-	-	Trading of drugs
CMS Visition International Management Limited	Macau	MOP22,500	-	-	100%	-	-	Trading of drugs
CMS Skinhealth International Business Limited	Macau	MOP22,500	-	-	100%	-	-	Trading of drugs

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.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2023 RMB'000	2022 RMB'000
Non-current asset		
Interests in subsidiaries	4,950,359	4,289,164
Current assets		
Amount due from a subsidiary	-	2,000,000
Derivative financial instruments	-	21,794
Bank balances and cash	5,754	39,618
	5,754	2,061,412
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	13,122	3,027
Bank borrowings	1,269,650	1,281,886
Derivative financial instruments	17,227	562
	1,302,957	1,288,433
Net current (liabilities) assets	(1,297,203)	772,979
Total assets less current liabilities	3,653,156	5,062,143
Capital and reserves		
Share capital (note 33)	83,991	83,991
Reserves	3,569,165	4,978,152
Total equity	3,653,156	5,062,143

Movement in reserves

	Share premium RMB'000	Capital reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Total RMB'000
Balance at 1 January 2022	2,153,817	6,960	1,710,572	557,594	4,428,943
Repurchase of ordinary shares	(48,196)	-	-	-	(48,196)
Profit and total comprehensive income for the year	-	-	1,873,644	-	1,873,644
Dividends paid	-	-	(718,645)	(557,594)	(1,276,239)
Dividends proposed	-	-	(591,910)	591,910	-
Balance at 31 December 2022	2,105,621	6,960	2,273,661	591,910	4,978,152
Loss and total comprehensive expense for the year	-	-	(48,624)	-	(48,624)
Dividends paid	-	-	(768,453)	(591,910)	(1,360,363)
Dividends proposed	-	-	(191,991)	191,991	-
Balance at 31 December 2023	2,105,621	6,960	1,264,593	191,991	3,569,165